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Indexes Get Interrogated

Study: State “Business Climate” Rankings Based on Flawed Data, Have No Policy Value

Washington, DC—Prominent studies that purport to measure and rank the states’ “business climates” are actually politicized grab-bags of data. They have no predictive value and should not be used to inform public policies.

Those are the main conclusions of a new study published today by Good Jobs First. “Grading Places: What Do the Business Climate Rankings Really Tell Us?” is authored by Dr. Peter Fisher, an economist who has written extensively on economic development.

“When we scrutinized the business climate methodologies, we found profound and elementary errors,” said Fisher. “We found effects presented as causes. We found factors that have no empirically proven relationship to economic growth. And we found scores that ignore major differences among state tax systems.”

“Given these underlying flaws, it is no surprise that the rankings wildly contradict each other and fail to predict which states’ economies will thrive,” concluded Fisher. “Instead, we note that the factors often have to do with the advocacy agendas of the groups.”

The study was released today at a national tele-press conference and is available at www.goodjobsfirst. It examines: the Small Business and Entrepreneurship Council’s *U.S. Business Policy Index*; the Tax Foundation’s *State Business Tax Climate Index*; and the American Legislative Exchange Council’s *Rich States, Poor States: the ALEC-Laffer Economic Competitiveness Index*; and the Beacon Hill Institute’s *State Competitiveness Report*. Also examined are two representative firm models: the Council on State Taxation’s *Competitiveness of State and Local Business Taxes on New Investment*, prepared by the accounting firm Ernst & Young, and the Tax Foundation’s *Location Matters*, prepared with the accounting firm KPMG.

“Our study does not try to correct these rankings or present a new rating,” said Greg LeRoy, executive director of Good Jobs First. “Indeed, that is one of our main points: the needs of different businesses and facilities vary so much—and conditions vary so much between metro areas even in the same state—that the whole concept of a state ‘business climate’ is nonsensical. For only the third time in 27 years, the pseudo-social science of ‘business climate’ ratings has been debunked. We should lay aside these useless reports and debate the real issue: how to build a tax system that is fair, modern and relevant.”

Good Jobs First is a non-profit, non-partisan resource center promoting accountability in economic development. Founded 15 years ago and headquartered in Washington, it includes Good Jobs new York.