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# Economic Policy Institute

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## MAJOR BUSINESS RANKINGS NOT AN ACCURATE MEASURE

Who of us can resist scanning the Top Ten, the Dirty Dozen, or the XYZ guide to the best (or worst) places to live, eat, go to college, fish for bass, or dance the polka? There seems to be a list for everything.

For businesses trolling for possible relocation sites, there are quite a few. These lists are called business climate indices, and the rankings hold serious potential consequences for businesses and also workers in the state or locality that's being ranked. How much credence should state and local legislators give to the picture of a state or city painted by business climate rankings? That's the question economist Peter Fisher answers in his book *Grading Places*, published today by the Economic Policy Institute. Fisher's critique of five major business ranking indices reveals the biases that underlie them, disputes their methodology, and concludes they do not work as yardsticks of economic potential.

"The indices are designed to promote a particular, usually anti-tax, political agenda," said Fisher. "None of them actually do a very good job of measuring what it is they claim to measure."

Thus, Hawaii has the *worst* tax climate for business according to the Tax Foundation's *State Business Tax Climate Index*, at the same time it is ranked the 18<sup>th</sup> *best* tax climate for business by the Cato Institute's *Fiscal Policy Report Card on America's Governors*. The indices vary widely in their outcomes, but have one thing in common: they claim that lower taxes and fewer government regulations are better, and draw policy recommendations from those conclusions. Fisher challenges the validity of recommendations based on an index that is not a valid measure of the state or city's growth climate.

The five indexes critiqued at length are the *Small Business Survival Index*, the *State Business Tax Climate Index*, the *Metro Area and State Competitiveness Report*, the *Fiscal Policy Report Card on America's Governors*, and the *Economic Freedom Index*. Although these indices claim to measure the capacity or potential for economic growth, they are published by anti-tax think tanks to promote an agenda of low taxes, spending cuts and less regulation.

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*The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or “think tank” – that researches the impact of economic trends and policies on working people in the United States and around the world.*

The *Fiscal Policy Report Card on America's Governors* is a good example. Published by the Cato Institute, the title suggests it measures how well America's governors manage state

finances. In fact, the highest “grades” are given to “Governors who cut taxes and spending the most.” Thus, the *Report Card* does little more than reward governors who aggressively push the Cato Institute’s agenda of limited government and tax cuts.

***Grading Places*** points out that some other economic competitiveness or business climate indices, like *Forbes* magazine’s “Best Places” ranking of metro areas, base their assessments on a far broader range of factors. Although these other indices are proprietary and thus not open to full inspection, they included cultural and recreational amenities, transportation, school quality, and health care – not just tax cuts.

**Peter Fisher** is a professor in the Graduate Program in Urban and Regional Planning at the University of Iowa, where he has taught since 1977. He is also the part-time Research Director for the Iowa Policy Project, a state-level non-profit public policy research organization focusing on the Iowa economy and state budget and tax policy. He is the co-author, with Alan Peters, of *Industrial Incentives: Competition among American States and Cities* (1998), and *State Enterprise Zone Programs: Have they Worked?* (2002), both published by the W.E. Upjohn Institute for Employment Research.