

Pennsylvania Slides in Another Business Climate Ranking

The Commonwealth slid in yet another ranking of the state's business climate. In their report "[America's Top States for Business 2012](#)" CNBC uses ten categories to rank the fifty states. Pennsylvania finished thirtieth in 2012 after finishing twelfth in last year's ranking. Why the fall? What does the ranking say about the Commonwealth's business environment?

First, a brief description of the ten categories the CNBC ranking system uses: cost of doing business, workforce, quality of life, transportation and infrastructure, economy, education, technology and innovation, business friendliness, access to capital, and cost of living. The ranking was based on a possible total score of 2,500 points with the categories receiving predetermined weights. For example, the most points for a category (350) were assigned to the cost of doing business, workforce, and quality of life while business friendliness (200), access to capital (100), and cost of living (50) were worth the fewest points. Even though the CNBC report does not explain precisely how scores were assigned to each state for the various categories, the report does include for each state the top corporate tax rate, top individual tax rate, gasoline taxes/fees, the bond rating, average SAT scores, and the number of degree granting institutions.

Pennsylvania scored the highest on technology and innovation (fifth, scoring 184 of a possible 225 points), access to capital (sixth—83/100), and education (seventh—162/225). The ranking in technology and innovation may be a reflection of the number of colleges and universities in the Commonwealth. This category also counts the number of patents issued to residents and the number of federal health and science research grants. With a high number of colleges and universities (262) with some very important ones in the mix, a high number of federal health and research grants should be expected. It is not clear if the score is based on per capita numbers or raw data. Although it should be noted that Texas, the overall highest ranked state, finished second in the technology and innovation category with fewer degree granting institutions (252) and twice the population (25.7 million) of Pennsylvania.

Pennsylvania's worst showing came in the categories with the highest possible point totals. The lowest ranking came in the workforce category (forty-eighth with only 112 points out of a possible 350). In this category the important factors included the education level of the workforce, the number of available workers, success of training

programs, and union membership. Interestingly CNBC had this to say about union membership: “While organized labor contends that a union workforce is a quality workforce, that argument, more often than not, does not resonate with business.” While not coming straight out and saying it, the report insinuates that the unionized labor is a negative in their rankings. How else could Pennsylvania score so few points in this category? Note that nine of the top ten ranked states are Right-to-Work states and have been for a long time. Only Colorado, ranked eighth, is not a Right-to-Work state. Being a Right-to-Work state does not guarantee a high ranking but its influence is surely captured in the CNBC rankings.

The Commonwealth also finished forty-first in the cost of doing business category (125/350). This category looks at the tax burden facing businesses which includes any business taxes, such as Pennsylvania’s corporate net income tax of 9.99 percent, as well as property taxes and the individual income tax. It also looks at the cost of wages and the rental cost of offices and industrial space. Interestingly enough only two states finished in the top ten overall and in the top ten in this category—South Dakota (seventh and third) and Wyoming (tenth in both). Kentucky led the pack while neighboring Ohio finished sixth in this category. Our other neighbors, Maryland (forty-second), New Jersey (forty-third), and New York (forty-seventh) finished behind Pennsylvania.

In the remaining five categories, Pennsylvania finished thirty-fifth (150/325) in infrastructure and transportation, thirty-third (155/350) in quality of life, thirty-second (19/50) in cost of living, thirtieth (83/200) in business friendliness and twenty-sixth (152/325) in the overall economy category.

We have written on the state rankings and economic vitality topic many times in the past and twice in the past few months. *Policy Brief Volume 12, Number 14* analyzes the Tax Foundation’s *Location Matters* ranking while *Brief Number 25* looks at the *Keystone Business Climate Survey* from the Lincoln Institute. The former examines the actual tax burden facing various businesses in a state-to-state comparison, while the latter surveyed business executives/managers about the current business conditions facing firms in the Commonwealth. Pennsylvania did not fare well in the Tax Foundation’s analysis ranking fiftieth. The Lincoln Institute survey from April revealed a distinct lack of optimism among Pennsylvania’s business leaders.

The CNBC report, which uses the Tax Foundation as a data source on business climate, provides further proof that more work needs to be done to improve Pennsylvania’s business climate.

The low ranking on workforce almost certainly reflects the negative impacts of strong labor unions and the state’s laws that create an imbalance of bargaining power, particularly in the public sector. Prevailing wage requirements and the absence of Right-to-Work also have a chilling effect on the private sector in terms of business and worker freedoms to hire who they wish or work where they wish.

Without question, infrastructure should be improved and the state should continue lowering the corporate tax rate. The regulatory environment, covered under business friendliness in which Pennsylvania ranked thirtieth, remains a problem as well. The Commonwealth can be pleased with its strong showing in education and the technology and innovation categories. The education category continues to demonstrate the incredibly powerful position Pennsylvania once held in the U.S. as a leading industrial state that created vast wealth that could be poured into higher education institutions. Which serves to remind that leadership in many areas depends on having the wealth and income to produce good schools, good roads and access to capital.

Pennsylvania's slide from twelfth to thirtieth in the CNBC rankings reflects two key factors. First, other states were able to improve their standing by making changes to taxes or other policies or by showing improvement in the categories used in the CNBC rating scheme. Second, by adopting the Tax Foundation's new ranking methodology vis-a-vis taxes and costs of doing business Pennsylvania's earlier ranking was misleadingly high. Our *Policy Brief* referenced above outlines the dramatic change in methodology employed by the Foundation that results in a true apples-to-apples comparison.

Without question, policies that drive business away or keep business from coming to the state have to be addressed. Otherwise, the Commonwealth is forced to offer huge amounts of aid to attract companies. And, that is not a healthy way to grow. It deepens the corporate handout mentality.

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