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Pennsylvania: Making the Grade?

Another year, another useless and misleading ranking of state economic performance by an association or national publication. Last year we wrote about an *Inc. Magazine* grade given to the Governors running for reelection *(Policy Brief Volume 6, Number 53*). That ranking was based on how favorable those chief executives were toward small business. Our own Governor got two stars out of four. Since he and other Governors deal with a lot of constituencies besides small business, the two out of four ranking was quite limited in scope and usefulness.

The lesson that seems to go unlearned is that there are numerous factors at play when trying to compile a ranking of executives or state performance and it is important to evaluate the most important and relevant ones or the results will be of little value. That's what has happened with the Corporation for Enterprise Development (CFED) and their latest "Development Report Card for the States".

Using twelve indicators grouped into the categories of "Performance, Vitality, and Capacity" the 50 states were given rankings that were then translated into letter grades. Pennsylvania received a C, B, and B, respectively in the three categories.

That's great, until we look at the grades of states with fast-growing economies that outpace Pennsylvania's 2.9 percent increase in private sector jobs over the last four years. Arizona, with a stunning 19 percent increase, received grades of C, C, and D respectively in the three categories; Nevada, the fastest-growing state over that period, received a C, B, and D. How could it be that places with very high private job growth could be outscored by Pennsylvania?

Grades for PA and Other Selected States

State	Performance	Vitality	Capacity	% Change in Private Jobs, 2002-2006
PA	*C*	*B*	*B*	*2.9*
AZ	C	C	D	19
CO	B	A	A	5.2
DE	A	A	A	6.4
FL	C	C	C	14
GA	C	C	C	6.3
MI	C	C	C	-2.4
NV	C	B	D	24.5
SC	C	B	D	7.3
TX	F	A	D	7.6
UT	B	B	A	15.8

The answer lies, of course, in the indicators selected and those not included in the study. For instance, the category of "Capacity" includes the indicator of Human Resources. Certainly, human resources are essential for workforce development. But what does the Report Card use to track Human Resources? Two components of this measure are Average teacher salary, on which Pennsylvania ranked 2 out of 50, and K-12 expenditures, which ranked 10th. These factors boost the ranking substantially. Six of the nine fastest growing states had grades of C or D on capacity. Why they would correlate these factors with positive performance is questionable.

In CFED's words, the Report Card is about "Measuring the standard of living and working in a state and how well the state is building foundations for future growth is just as important as how hospitable that state is to businesses". Fine. Then why among the numerous indicators in the study is there no mention of tax rates on personal and corporate income, per capita state expenditures, Right to Work or regulatory burden that are important to how hospitable the state is? Businesses have consistently identified Pennsylvania's double whammy of a corporate net income tax and a capital stock and franchise tax as a major deterrent to locating here. And those factors have just as much impact on an individual's standard of living as they do on businesses. Instead, we get "toxic release inventory", "income distribution", and "affordable urban housing".

Here's the reality: Census data on population growth and job expansion tell us a lot about how attractive and hospitable a state is. Pennsylvania as a whole and the southwestern part of the state are lacking on those measures. And that puts us far from the head of the class.

One needs to look no further than the case of Michigan, which got Cs across the board, to see the problems with the ranking. Michigan was the only state not struck by a natural disaster to lose jobs yet ranked ahead of 11 other states on performance. CFED's methodology looks at average annual pay, which, along with benefits, is very high in Michigan's auto industry. But these high costs are also a main cause of that industry's problems in Michigan. Indeed, high wages and absence of Right to Work are driving auto industry jobs out of Michigan. The fact that CFED's comparison misses this reality makes the Report Card useless at best, misleading at worst.

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