



## CONNECTICUT'S BUSINESS CLIMATE RANKINGS

By: John Rappa, Chief Analyst

### WHAT DO BUSINESSES SAY ABOUT THE BUSINESS CLIMATE?

Think tanks and business magazines use statistics to compare and rank state business climates and identify the conditions necessary for businesses to expand and grow. But Kaufman Foundation's Yasuyuki Monoyama and Stanford University's Iris Hui argue that business owners provide a better picture of a state's business climate than government statistics.

The researchers tested their theory by surveying over 3,600 small business owners about how their states treat small businesses and found that their responses "either do not associate with individual perceptions of business climate or predict in the wrong direction."

Tax codes and regulations are a bigger headache for these owners than tax rates, a finding suggesting that policy makers should concentrate more on simplifying the regulatory environment (*Economic Development Quarterly*, 2015, Vol 29 (3), available in the Legislative Library).

### ISSUE

This report describes how Connecticut's business climate rankings compare with those of the other New England states, New Jersey, and New York (selected states).

### SUMMARY

At least 12 organizations annually rank states on mostly economic and business factors from one to 50 based on the states' economic strengths and weaknesses, with one indicating the best business or economic climate and 50 the worst. (Other organizations rank states based on other factors, such as quality of life.)

Most of the organizations rank Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont among the bottom 25 states. Most of these states that fall in this category also rank among the bottom 10 states. This is particularly true in studies that score states based on taxes, regulations, and other business cost factors. The states tend to rank higher in studies that score states based on these and other more qualitative factors, such as the share of workers holding information technology jobs.

Differences in the organizations' rankings reflect differences in the factors they use to rank the states. The factors reflect each organization's interests and



concerns. For example, the American Legislative Exchange Council's (ALEC) factors reflect the council's beliefs about limited government, free markets, federalism, and individual liberty. The factors include tax rates and burdens, minimum wage requirement, and the number of public employees per 10,000 people. Corporation for Enterprise Development's (CFED) factors reflect the corporation's goal to help low- and moderate-income people build and preserve the assets needed to start a business, buy a home, or obtain a college degree. Consequently, the factors include business ownership and unemployment rates.

## **OVERALL RANKINGS**

### ***Connecticut***

Many organizations provide a single overall rank for each state and several sub-ranks for each group of variables they use to determine the overall ranks. This combination of overall and sub-ranks comprises a study's ranking structure.

Table 1 identifies these organizations, their ranking structure, and, in most cases, Connecticut's rank. As the table shows:

1. five organizations rank Connecticut among the bottom 10 states (American Legislative Exchange Council (ALEC) (47 for economic outlook & 45 economic competitiveness), Beacon Hill Institute (40), *Chief Executive Magazine* (45), Small Business and Entrepreneurship Council (41), and Tax Foundation (42));
2. three rank Connecticut among the middle states (CNBC (33), Corporation for Enterprise Development (CFED) (27), and *Forbes* (36)); and
3. one ranks Connecticut among the top 10 states (Information Technology and Innovation Forum (ITIF) (8)).

The U.S. Chamber of Commerce Foundation ranked each state based on 33 variables without consolidating them into an overall ranking (see below). *Business Facility* and *Site Selection* magazines published only their top 10 states, and neither includes Connecticut in that category.

**Table 1: Comparison of Connecticut's Rankings in Current Business Climate Studies**

<b>Ranking Organization</b>	<b>Publication</b>	<b>Basis of Ranking</b>	<b>Rankings Structure</b>	<b>Year</b>	<b>CT Ranking 2015</b>
American Legislative Exchange Council (ALEC)	<a href="#">Rich States, Poor States: ALEC- Laffer State Economic Competitiveness Index, 8th Edition: Economic Outlook Rankings</a>	Identify state policies leading to economic prosperity	15 equally weighted policy areas state lawmakers directly influence, including taxes and labor costs	2015	47
	<a href="#">Rich States, Poor States: ALEC- Laffer State Economic Competitiveness Index, 8th Edition: Economic Performance Rankings</a>		Gross state product Absolute domestic migration (i.e., difference between the number of people who moved into the state and the number that moved out) Growth in non-farm payroll employment	2013	45
Beacon Hill Institute	<a href="#">14th Annual State Competitiveness Report</a>	Quality of business environment based on microeconomic variables	45 indicators grouped into eight policy areas, including government and fiscal policies and security (i.e., crime)	2014	40
<i>Business Facilities Magazine</i>	<a href="#">State Rankings: Business Climate</a>	Business climate	Combination of key rankings, including education, labor, and taxes	2014	Not included in top 10

Table 1 (continued)

<b>Ranking Organization</b>	<b>Publication</b>	<b>Basis of Ranking</b>	<b>Rankings Structure</b>	<b>Year</b>	<b>CT Ranking 2015</b>
Chief Executive Magazine	<a href="#">2015 Best and Worst States for Business</a>	Business climate	Surveys asking CEOs to rate states based on taxes and regulations, workforce quality, and living environment	2015	45
CNBC	<a href="#">Top States for Business 2015</a>	Competitiveness	55 metrics grouped into 10 broad categories, including business costs, infrastructure, and capital access	2015	33
Corporation for Enterprise Development (CFED)	<a href="#">2015 Assets and Opportunities Scorecard</a>	Household financial security and economic opportunity	67 outcome measures grouped into five categories, including financial assets and income and education	2015	27
Forbes	<a href="#">Best States for Business 2014</a>	Business climate	36 data points grouped into six categories, including business costs and regulatory environment	2014	36
Information Technology & Innovation Forum	<a href="#">The 2014 State New Economy Index: Benchmarking Transformation in the States</a>	Extent to which states' economic structure foster knowledge and innovation (i.e., the New Economy)	25 indicators divided into five categories, including knowledge jobs and innovation capacity	2014	8

Table 1 (continued)

<b>Ranking Organization</b>	<b>Publication</b>	<b>Basis of Ranking</b>	<b>Rankings Structure</b>	<b>Year</b>	<b>CT Ranking 2015</b>
Site Selection Magazine	<a href="#">Top 10 Competitive States of 2014</a>	Business climate	Variables measuring facilities constructed and expanded and real estate CEO responses to business climate survey questions	2014	Not included in top 10
Small Business & Entrepreneurship Council	<a href="#">U.S. Business Policy Index 2014</a>	Public policies affecting business climate	42 major “government-imposed or government-related costs” impacting small businesses and entrepreneurs across business sectors	2014	41
Tax Foundation	<a href="#">2015 State Business Tax Climate Index</a>	State business tax climate	Over 100 variables divided into five hierarchically ordered components, ranging from individual income tax to unemployment insurance	2015	42
U.S. Chamber of Commerce Foundation	<a href="#">Enterprising States 2014; Re-creating Equality of Opportunity</a>	Economic performance and job growth and prosperity policies	33 metrics for economic performance, international trade, innovation and entrepreneurship, business climate, talent pipeline, and infrastructure	2014	Connecticut ranked among top 10 states on four metrics and among those ranking between 11 and 25 on 10 metrics (see Table 3 for details)

### ***Reasons for Differences in Connecticut's Ranks***

The differences in how the organizations rank Connecticut reflect the number and types of variables they use to measure state economic climates. For example, Connecticut ranks poorly in studies that rank states based mainly on taxes, labor laws, regulations, and other business costs (e.g., ALEC's *Rich States, Poor States: Laffer State Economic Competitiveness Index* and Tax Foundation's *2015 State Business Tax Climate Index*).

Connecticut generally ranks better when the rankings include other, more qualitative variables that indirectly affect business costs, such as family financial assets (e.g., CFED's *Assets and Opportunity Scorecard*) and "knowledge jobs" (e.g., ITIF's *The 2014 State New Economy Index: Benchmarking Transformation in the States*).

### ***Connecticut and Selected States' Rankings***

As Table 2 shows, Connecticut and the selected states generally rank among the bottom 25 states when compared based on taxes and other cost variables. Connecticut, Maine, New Jersey, New York, Rhode Island, and Vermont rank among the bottom 10 states in most of these studies. Massachusetts and New Hampshire fare better, ranking 24 and 7, respectively in the Tax Foundation's study and 28 and 29, respectively in ALEC's.

The rankings of Connecticut and the other states are generally higher in studies that rank states on other variables in addition to business cost, such as infrastructure quality and homeownership rates. All the states except Maine ranked among the top 20 states in ITIF's study, which ranks states based on knowledge jobs, exports, foreign direct investment, business starts and failures, and innovation capacity. Connecticut and Massachusetts rank 8 and 1, respectively.

All of the selected states except Connecticut and New Jersey rank among the top 25 states in Beacon Hill Institute's study, which is also based on a range of different types of variables, including taxes, public safety, infrastructure, business startups, and export trade. Massachusetts and New Hampshire rank 1 and 6, and Connecticut and New Jersey rank 40 and 49 respectively.

**Table 2: Comparison of 2014-2015 State Rankings for New England States and New Jersey and New York**

<b>Ranking Organization</b>	<b>Selected States</b>							
	<b>Connecticut</b>	<b>Maine</b>	<b>Massachusetts</b>	<b>New Hampshire</b>	<b>New Jersey</b>	<b>New York</b>	<b>Rhode Island</b>	<b>Vermont</b>
American Legislative Exchange Council (ALEC): Economic Outlook Rank	47	42	28	29	46	50	39	49
ALEC: Economic Performance Rank	45	44	32	36	48	34	47	38
Beacon Hill Institute	40	17	1	6	49	24	22	20
<i>Chief Executive Magazine</i>	45	30	46	21	47	49	37	41
CNBC	33	44	20	30	39	35	48	42
Corporation for Enterprise Development (CFED)	27	10	19	4	29	32	40	2
<i>Forbes</i>	36	49	13	35	41	17	46	43
Information Technology & Innovation Forum	8	28	1	11	10	12	19	14
Small Business & Entrepreneurship Council	41	42	31	27	49	48	40	45
Tax Foundation	42	33	24	7	50	49	45	46

Key

Top Half: 1-25	
Bottom Half 26-50	

As noted earlier, the U.S. Chamber of Commerce Foundation ranks each state based on 33 factors, but identifies only the top 25 states. The selected states collectively rank well with respect to innovation and entrepreneurship and talent pipeline. They also rank relatively well with respect to broadband speed and provider availability. As Table 3 shows, Massachusetts ranks among the top 25 states on 18 of 33 factors, followed by New Hampshire (16 factors), New Jersey (15 factors), and Connecticut (14 factors).

The ranks are mixed with respect to economic performance and international exports. Only Massachusetts and New York rank among the top 25 states on economic performance, and Connecticut and New Jersey rank among these states on exporting. Connecticut, Massachusetts, New York, and New Jersey rank among the top 10 states on economic output per job.

All the selected states rank among the bottom 25 states on road and bridge quality. Many also rank among these states on state and local tax burden, business climate, and cost of living. (The exceptions are Massachusetts, which ranks 25 on business climate, and New Hampshire, which ranks among the top 10 states on tax burden, business climate, and the "legal environment" (i.e., the extent to which perceptions of the legal environment and the amount of legal activity in the state affects the cost of liability insurance).



Table 3: U.S. Chamber of Commerce Foundation 2014 Selected States Ranking by Metric

<i>Metrics</i>	<i>Connecticut</i>	<i>Maine</i>	<i>Massachusetts</i>	<i>New Hampshire</i>	<i>New Jersey</i>	<i>New York</i>	<i>Rhode Island</i>	<i>Vermont</i>
Economic Performance								
• Long-Term Job Growth			22			18		
• Short-Term Job Growth			21					
• Gross State Product								
• Economic Output per Job	4		9		5	3	16	
• Productivity Growth			20	24				17
• Per Capita Income Growth	20		18	19		8	22	11
• Adjusted Median Family Income	19		6	16	15			
Exports								
• Export Intensity	22				17			9
• Export Intensity Per Capita								
• Growth Share of National Exports					20			
• Export Growth					24			
Innovation & Entrepreneurship								
• STEM Job Growth			15					23
• STEM Job Concentration	17		4	18	12		21	20
• High-Tech Share of all Business	16	23	6	5	9		8	18
• New Business Startup Rate			25	24	6	15	14	
• Academic R&D Intensity	23		2	4		19	3	17
• Entrepreneurship Index	18	13				13		4
Business Climate								
• Small Business Lending		19			17	18		
• Legal Environment		3		4				20
• State and Local Tax Burden				7				
• Business Tax Climate			25	8				
• U.S. Small Business Policy Index				19				
• Cost of Living								
Talent Pipeline								
• Higher-Ed Degree Output								22
• Higher-Ed Efficiency		15	13	8	18		17	
• College Affordability	18					16		8

Table 3 (continued)

<i>Metrics</i>	<i>Connecticut</i>	<i>Maine</i>	<i>Massachusetts</i>	<i>New Hampshire</i>	<i>New Jersey</i>	<i>New York</i>	<i>Rhode Island</i>	<i>Vermont</i>
• Educational Attainment	6		1	7	5	4	15	
• H.S. Advanced Placement Scores	2	11	4	20	10	7		14
• Labor Force Utilization	20	16	21	7	25		18	9
Infrastructure								
• Broadband Speed Availability	3	11	5		2	4	1	
• Broadband Provider Availability	20		15	21	3	25	1	
• Road Quality								
• Bridge Quality								

Key

Ranking 26-50	
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## SUB-RANKINGS

Comparing how the 12 organizations rank Connecticut and the other states becomes more complicated when the focus shifts from their overall rankings to their sub-ranks. Focusing on the sub-ranks shows how an organization can give a state a relatively low overall ranking and relatively higher sub-ranks, an outcome that usually results from differences in how it groups and weighs the ranking criteria.

For example, for ALEC's *Rich States, Poor States: ALEC-Laffer State Competitiveness Index 8<sup>th</sup> Edition* (2015) overall ranks are based on 15 equally weighted "policy areas that are directly influenced by state lawmakers," such as taxes, government spending and debt service, and labor costs. As Table 4 shows, in some of these areas, Connecticut ranks higher than the other states, including those with higher overall ranks. For example, Connecticut ranks 27 on personal income tax progressivity, which is higher than those of Maine (47), New Jersey (48), New York (34), and Vermont (49).

**Table 4: Comparison of Selected States Rankings in the *Rich States, Poor States ALEC-Laffer State Economic Competitiveness Index* for 2015**

Ranking Structure	States							
	CT	ME	MA	NH	NJ	NY	RI	VT
Overall Economic Outlook Ranking	47	42	28	29	46	50	39	49
Ranking Variables:								
○ Highest Marginal Personal Income Tax Rate	30	41	21	1	46	49	26	43
○ Highest Marginal Corporate Income Tax Rate	42	41	35	38	42	50	27	38
○ Personal Income Tax Progressivity	27	47	16	2	48	34	24	49
○ Property Tax Burden	43	45	39	49	50	46	47	48
○ Sales Tax Burden	14	20	9	1	11	31	13	7
○ Tax Burden from All Remaining Taxes	26	30	2	29	9	35	24	48
○ Estate/Inheritance Tax (Yes or No)	50	50	50	1	50	50	50	50
○ Recently Legislated Tax Policy Changes (Over the past two years)	46	21	41	40	13	6	23	50
○ Debt Service as a Share of Tax Revenue	26	10	44	38	15	37	48	5

Table 4 (continued)

Ranking Structure	States							
	CT	ME	MA	NH	NJ	NY	RI	VT
○ Quality of State Legal System	25	12	19	21	32	18	31	16
○ Workers' Compensation Costs	47	22	44	1	41	43	44	47
○ State Minimum Wage	49	38	4	39	48	47	31	43
○ Right-to-Work State	50	50	50	50	50	50	50	50
○ Tax or Expenditure Limits	14	14	14	34	14	34	14	34

Differences between overall and sub-ranks also appear when organizations include other criteria in addition to business costs. For example, ITIF's three-tier ranking structure reflects its concern about the nation's ability to create and sustain the types of jobs needed to compete in the global economy.

Working from the bottom up, ITIF's third or lowest tier are 25 weighted factors that "assess each state's fundamental capacity to navigate the shoals of economic evolution." ITIF scores and ranks the states for each factor. It groups these factors into five policy categories and ranks the states based on their total category score. These categories comprise the second or middle tier. ITIF totals the second tier scores to calculate the overall score and ranks, which comprise the first or top tier.

Table 5 outlines ITIF's three-tiered ranking scheme and identifies each state's rank. As the table shows:

1. all the selected states except Maine (26) had overall scores that ranked among the top 25, with Connecticut ranking 8 and Massachusetts 1;
2. all the states except Maine ranked among the top 25 states in each second-tier indicator category, with Massachusetts ranking 1 in knowledge jobs and digital economy, 2 in innovation capacity, 4 in economic dynamism, and 7 in globalization, and Connecticut ranking 4 in knowledge jobs, 9 in globalization, and 9 in digital economy; and
3. Massachusetts scored among the top 10 states on 19 of the 25 indicators, followed by Connecticut, New Jersey, and Vermont, each of which scored among the top 10 on 10 indicators.
4. All of the states except New York scored among the bottom 10 on at least one indicator.

**Table 5: Comparison of Selected States Sub-Rankings in ITIF's *The 2014 State New Economy Index***

Rankings	Weight	Selected States							
		CT	ME	MA	NH	NJ	NY	RI	VT
Overall Score		8	28	1	11	10	12	19	14
Category and Indicator Score									
○ <b>Knowledge Jobs</b>	<b>5.00</b>	<b>4</b>	<b>32</b>	<b>1</b>	<b>15</b>	<b>10</b>	<b>9</b>	<b>18</b>	<b>16</b>
▪ Information Technology Jobs	0.75	12	38	4	21	7	15	19	35
▪ Managerial, Professional, and Technical Jobs	0.75	4	23	1	16	10	11	20	8
▪ Workforce Education	1.00	4	25	1	8	7	10	13	5
▪ Immigration of Knowledge Workers	0.50	31	22	37	5	24	39	15	6
▪ Migration of U.S. Knowledge Workers	0.50	4	9	2	14	20	6	24	1
▪ Manufacturing Value Added	0.75	10	36	17	38	39	35	41	44
▪ High-Wage Traded Services	0.75	3	38	8	17	9	2	18	45
○ <b>Globalization</b>	<b>2.00</b>	<b>9</b>	<b>24</b>	<b>7</b>	<b>14</b>	<b>5</b>	<b>6</b>	<b>17</b>	<b>16</b>
▪ Foreign Direct Investment	1.00	25	43	17	45	10	8	49	9
▪ Export Focus of Manufacturing and Services	1.00	4	10	7	2	5	13	6	28
○ <b>Economic Dynamism</b>	<b>3.50</b>	<b>22</b>	<b>20</b>	<b>4</b>	<b>17</b>	<b>19</b>	<b>14</b>	<b>28</b>	<b>15</b>
▪ Job Churning	1.00	50	11	38	15	34	17	10	9
▪ Fast-Growing Companies	0.75	6	36	1	31	10	15	25	34
▪ Initial Public Offerings	0.50	18	36	3	25	5	13	36	36
▪ Entrepreneurial Activity	0.75	18	16	31	24	37	15	43	1
▪ Inventor Patents	0.50	4	41	3	5	9	18	29	35

Table 5 (continued)

<i>Rankings</i>	<i>Weight</i>	<i>Selected States</i>							
		<i>CT</i>	<i>ME</i>	<i>MA</i>	<i>NH</i>	<i>NJ</i>	<i>NY</i>	<i>RI</i>	<i>VT</i>
▪ E-government	0.50	36	36	17	36	31	9	36	36
▪ Online Agriculture (i.e., percent of farmers with internet access and using computers for business)	0.50	1	1	1	1	7	25	1	1
▪ Broadband Telecommunications	1.00	4	26	1	2	6	15	11	19
▪ Health IT	0.50	25	24	7	11	37	31	6	1
▪ High-Tech Jobs	0.75	14	40	1	6	10	28	17	16
▪ Scientists and Engineers	0.75	14	46	3	12	11	32	16	33
▪ Patents	0.75	11	31	7	32	6	8	26	17
▪ Industry Investments in R&D	1.00	4	41	5	6	7	27	30	29
▪ Non-Industry Investments in R&D	0.50	37	33	4	28	40	30	3	29
▪ Movement Toward a Green Economy 0.50	0.50	13	5	45	3	18	10	31	7
▪ Venture Capital	0.75	17	30	1	12	14	6	7	35

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