

State Competitiveness Indexes and Rankings: What They Tell Us about Florida's Competitiveness and Future

How competitive is Florida as a place to do business? There are a variety of different ways to answer this deceptively simple question. A sizable number and wide array of organizations produce indexes and associated rankings pertaining to state economic competitiveness. The organizations range from research institutes and 'think-tanks' to popular print and broadcast media outlets. Some indexes have purposefully narrow scopes focusing on only one or a few aspects of state economic climates, while others are designed to provide more comprehensive measures of economic competitiveness. Methodologically, all competitiveness-type indexes are comprised of sub-indexes, with the number and types of sub-indexes varying considerably. Some are firmly rooted in economic growth theory and their measures of competitiveness seem empirically sound, while others appear more impressionistic in nature.

Regardless of their purpose, design, and empirical reliability such indexes and rankings elicit considerable debate and discussion within the public policy, business, and economic development communities – not unlike rankings of our favorite college sport teams. Moreover, the mere publication of such rankings may influence perceptions and actions of entrepreneurs and business decision-makers.

This issue of Economic Commentary, the premier one under the generous sponsorship of Florida Power & Light, examines how Florida ranks according to ten separate competitiveness indexes. Additionally, we attempt to identify areas of particular strength and weakness for Florida's competitiveness by analyzing and searching the sub-index components for recurring themes. Such identifications can be valuable in developing policies and programs to bolster the state's economic growth.

Table 1 presents Florida's ranking among the fifty states in each of ten well known competitiveness type indexes, as well as the respective states with the highest and lowest rank. The ranking organizations are listed alphabetically. State Competitiveness Indexes and Rankings: What They Tell Us about Florida's Competitiveness and Future

Table 1: State Competitiveness Rankings			
Organization	Competitiveness Rankings		
	Florida	Highest	Lowest
American Legislative Exchange Council	11	Utah	New York
Beacon Hill Institute	32	Massachusetts	Mississippi
Corporation for Enterprise Development	C/C/D*	Connecticut**	West Virginia
CNBC	17	Texas	Alaska
Forbes	8	Virginia	West Virginia
Fraser Institute	4	Delaware	West Virginia
New Economy	23	Massachusetts	Mississippi
Site Selection	6	North Carolina	NA
Small Business & Entrepreneurship Council	5	South Dakota	New Jersey
Tax Foundation	5	Wyoming	New Jersey***

¹A thorough assessment of state business climate indexes is presented in G. Bittlingmayer, L. Eathington, and A.P. Hall. "Business Climate Indexes: Which Work, Which Don't and What Can They Say About the Kansas Economy?" Kansas, Inc. June, 2005. www.kansasinc.org accessed June 19, 2009.

*Numerical ranking not provided. Connecticut and Delaware are the only states graded A/A/A and West Virginia the only state with an F/F/F/ scoring.

** Tie with Delaware.

***Tie with District of Columbia.

Sources: See Table 2

Overall, Florida fares well in these rankings. Five organizations rank Florida's competitiveness in the top ten of all states, and another organization ranks Florida just outside the top ten. A simple, un-weighted average of the nine above numerical rankings gives Florida a position of 12th among the 50 states. This (admittedly crude) measure suggests Florida is among the nation's more economically competitive states.

Delaware and Massachusetts each appear at the top in two rankings. Sun Belt and Western states occupy the other top spots. At the other end of the spectrum West Virginia appears three times while Mississippi and New Jersey each appear twice.

At the same time the wide disparity in Florida's rankings, from a high of 4th to a low of 32nd, indicates more detailed analysis is warranted. Variability in rankings across organizations employing different purposes, designs, and methodologies is to be expected, but the wide ranking variability noted for Florida might indicate the state's competitiveness is highly sensitive to and skewed owing to a small handful of included or excluded measures.

The measures or variables for Florida that appear to lie behind the rankings assigned by the respective organizations are presented in more detail in Table 2. Several noteworthy points emerge:

1. Florida scores and ranks highly owing to the absence of a personal income tax; its relatively low unemployment insurance taxes on business; its openness and growth in international trade; its general hospitableness to entrepreneurs and small businesses; and its availability of capital to finance business expansion and relocation. The credit crunch of the last two years, while not unique to Florida, in all likelihood has severely constrained the availability of capital to existing, new and relocating businesses. This factor alone may make Florida less attractive to entrepreneurs. The restructuring of the financial system will have an important bearing on Florida's future competitiveness.
2. Florida scores and ranks poorly owing to high business costs – notably property tax burdens, state and local sales, excise and gross receipt tax burdens, and general business costs; in the areas of security/crime and quality of life; and in areas related to so-called knowledge workers. These are the areas where policy actions can have the greatest effects. Looming and sizable state and local government budget shortfalls pose a potentially serious risk to Florida's already high business costs if elected officials seek redress via increasing business taxes. Moreover, budgetary cutbacks may be exacerbating the shortage of knowledge workers by prompting 'brain and leadership drains' from the state's leading research universities and institutes. Security and quality of life concerns can be a significant deterrent to business expansions and relocations.
3. Florida's rankings seem consistent with either a feast or famine tendency. The state is highly competitive in some areas and not very competitive at all in others. Florida tends to score and rank either quite high and near the top or extremely low and close to the bottom on many of the various sub-indexes and specific measures. There are simply not many measures where Florida is close to the national average of the states and 'in the middle.' Florida's overall high and not-so-high rankings then reflect the weights given to the various sub-indexes and measures.

In a global environment individuals, families, organizations, and businesses have expanded choices including where to live, where to invest, where to grow and where to locate. A variety of indexes attempting to measure and rank the attractiveness of states for business exist. Economists will continue to debate the merits of various competitiveness indexes, and like discussing the rankings of their favorite college sports team, the business and economic development communities will argue for their preferred top ten. However, policy makers and all who are interested in the future of Florida's economy must pay attention to enhancing those factors which provide the foundations for Florida's growth and addressing those factors which constrain it.

Table 2: Strengths and Weaknesses of Florida's Economic Competitiveness Rankings	
(Numbers in parentheses indicate Florida's ranking among the 50 states)	
Organization:	American Exchange Legislative Council. www.alec.org
Report:	A.B. Laffer, S. Moore, J. Williams. "Rich States, Poor States." 2009.
Scope:	State Economic Competitive Index.
Design:	15 state determined policy variables; equal weighting.
Florida Rank:	11
Strength(s):	No personal income tax (1); No inheritance tax (1); Right-to-work state (1).
Weakness(s):	Remaining tax burden (46); State liability system (42); Property tax burden (34).
Organization:	Beacon Hill Institute at Suffolk University. www.beaconhill.org
Report:	Eighth Annual Competitiveness Report (2008).
Scope:	State Economic Competitive Index.
Design:	8 broad sub indexes, 35 variables measuring state policies and conditions.
Florida Rank:	32
Strength(s):	Government & fiscal policy (1); Business incubator (11); Openness (13).
Weaknesses:	Infrastructure (47); Security (45); Technology (43).
Organization:	Corporation for Enterprise Development. www.cfed.org
Report:	2007 Development Report Card for the States.
Scope:	State Economic Capacity Index.
Design:	3 sub-indexes – business vitality, development, capacity. 67 measures of performance.
Florida Rank:	Ranks not given. A to F grade assigned for each sub-index. Florida grades of C/C/D on above 3 sub-indexes.
Strengths:	Employment (A); Entrepreneurial Energy (A); Financial Resources (A).
Weaknesses:	Quality of Life (D); Competitiveness of Existing Business (D); Amenity Resources & Natural Capital (D); Innovation Assets (D).
Organization:	CNBC. www.cnbc.org
Report:	America's Top States for Business (July, 2008)
Scope:	State Business Competitive Index.
Design:	10 categories, 40 measures of state business climate; unequal weighting.
Florida Rank:	17
Strength(s):	Workforce (1); Technology & Innovation (9); Access to capital (9).
Weaknesses:	Cost of doing business (42); Education (39); Cost of living (34).
Organization:	Forbes Magazine. www.forbes.com
Report:	K. Badenhausen. "Best States for Business." July, 2008.

Scope:	State Business Climate Index.
Design:	6 categories, 32 measures of state business climate; unequal weighting.
Florida Rank:	8
Strength(s):	Economic climate (1); Growth prospects (5).
Weaknesses:	Business Costs (34); Quality of life (33).
Organization:	Fraser Institute. www.fraserinstitute.org
Report:	F. McMahon and A. Karabegovic. "Economic Freedom of North America, 2008 Annual Report." (U.S. edition).
Scope:	State Indexes of Economic Liberalism.
Design:	3 sub-indexes, 10 components of freedom of resource allocation.
Florida Rank:	4 (tie).
Strength(s):	Absence of personal income tax (1); Labor market freedom (8).
Weaknesses:	Takings and discriminatory taxes (21).
Organization:	Information Technology and Innovation Foundation. www.itif.org
Report:	R.D. Atkinson and S. Andes. "The 2008 State New Economy Index."
Scope:	Index of state economic structure.
Design:	5 categories, 29 indicators of state economic structure versus ideal structure of the new economy.
Florida Rank:	23
Strength(s):	Export focus of business sector (5); job churning (9).
Weaknesses:	Low immigration of knowledge workers (38); low number of scientist and engineers (31).
Organization:	Site Selection Online. www.siteselection.com
Report:	M. Arend and A. Bruns. "Force Field: 2007 Top State Business Climate Rankings."
Scope:	Index of business relocation desirability.
Design:	2 categories; equal weighting.
Florida Rank:	6
Strengths:	Survey of corporate relocation executives (5); New plant database (9).
Weaknesses:	None given.
Organization:	Small Business & Entrepreneurship Council. www.sbecouncil.org
Report:	R.J. Keating. "Small Business Survival Index 2008: Ranking the Policy Environment for Entrepreneurship across the Nation." December, 2008.
Scope:	Index of state policy environment for entrepreneurs.
Design:	34 state government imposed cost or related cost on small businesses and entrepreneurs.
Florida Rank:	4
Strengths:	Absence of personal income tax (1); Unemployment insurance taxes (4).

Weaknesses:	Crime rate (45); State & local sales, gross receipts, excise taxes (43); Health insurance mandates (39).
Organization:	Tax Foundation. www.taxfoundation.org
Report:	J. Barro. "2009 State Business Tax Climate Index." October, 2008.
Scope:	Index to which a state's tax system is hospitable to business and economic growth.
Design:	6 components focusing on taxes; unequal weighting.
Florida Rank:	5
Strengths:	Absence of personal income tax (1); Unemployment insurance tax index (3).
Weaknesses:	Sales tax index (21); Property tax index (19); Corporate Tax Index (14).

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