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Best/Worst States for Business

May 3 2011 by J P Donlon

More than 500 CEOs considered a wide range of criteria, from taxation and regulation to workforce quality and living environment, in our annual ranking of the best states for business. The charts and articles in this special report show how each state fares on the factors most essential for a business-friendly environment—as well as what states are doing to attract and retain companies in the increasingly competitive battle to win site selection.

While the Lone Star State may not be perfect—many leaders would like to see improvements in its education system—it is Periclean Athens compared to California in the eyes of the 550 CEOs surveyed for *Chief Executive's* seventh annual report on the best and worst states in which to do business. It's the seventh time in seven years running that Texas has

2011 RANK	STATE	2010 RANK	CHANGE
1	Texas	1	0
2	North Carolina	2	0
3	Florida	6	3
4	Tennessee	3	-1
5	Georgia	7	2
6	Indiana	16	10
7	Virginia	4	-3
8	South Carolina	10	2
9	Utah	9	0

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But there has been some jockeying within the ranks.

The Golden State was closely followed in the hall of shame by New York, Illinois, New Jersey and Michigan, with Illinois elbowing its way past New Jersey this year for the dubious distinction of third worst. Meanwhile, among the best states, Indiana jumped to sixth place from 16th in 2010, giving Hoosiers the third-biggest advance in the rankings in a single year.

Wisconsin and Louisiana posted the two biggest gains since 2010, with the latter, along with Oklahoma, also showing the biggest gains over the last five years. By proactively reshaping its posture toward business taxation and regulation, Louisiana has been quietly stealing pages from the Texas playbook.

By contrast, Illinois has dropped 40 places in five years and is now in a death spiral. Its bond ranking is 49th, ahead of only California. The state may play host to fugitive state senators from nearby Wisconsin and Indiana who avoid voting in their home legislatures, but businesses are heading for the exits. Doug Oberhelman, CEO of Peoria-based Caterpillar, is raising the specter of moving the heavy equipment maker out of Illinois. In a letter to Gov. Pat Quinn, he wrote, “The direction that this state is headed in is not favorable to business, and I’d like to work with you to change that.”

Business leaders graded the states on a variety of categories grouped under taxation and regulation, workforce quality and living environment. “Do not overtax business,” offered one CEO. “Make sure your tax scheme does not drive business to another state. Have a regulatory environment and regulators that encourage good business—not one that punishes businesses for minor infractions. Good employment laws help too. Let companies decide what benefits and terms will attract and keep the quality of employee they need. Rules that make it hard, if not impossible, to separate from a non-productive employee make companies fearful to hire or locate in a state.”

12	Colorado	8	-4
13	Arizona	11	-2
14	Wyoming	15	1
15	South Dakota	14	-1
16	Delaware	12	-4
17	Kentucky	23	6
18	New Hampshire	18	0
19	Idaho	13	-6
20	Nebraska	22	2
21	North Dakota	24	3
22	Iowa	17	-5
23	Missouri	26	3
24	Wisconsin	41	17
25	Kansas	25	0
26	Alabama	20	-6
27	Louisiana	40	13
28	Montana	28	0
29	Minnesota	31	2
30	Arkansas	27	-3
31	Alaska	21	-10
32	New Mexico	29	-3
33	Oregon	38	5
34	Washington	30	-4
35	Rhode Island	39	4
36	Maine	37	1
37	Maryland	33	-4

living environment. While state incentives are always welcome, what CEOs often seek are areas with consistent policies and regulations that allow them to plan, as well as intangible factors such as a state's overall attitude toward business and the work ethic of its population.

This is one reason Texas has consistently held the No. 1 position since 2005. It gets strong marks in all areas important for business creation, and has the second-lowest taxes in the nation. The state has created more jobs than any other—about 250,000 last year. Not surprisingly, it also enjoys the highest inward net migration rate of any state. As a result, Texas gained four Congressional seats, Florida picked up two and Arizona, Georgia, Nevada, South Carolina, Utah and Washington each gained one. All have low taxes. Brian Domitrovic, assistant professor of history at Sam Houston State University, identifies a key factor that often goes unnoticed. “Texas offers high labor market flexibility, which is a key element in business creation,” he notes.

On the downside, Texas has also attracted more job seekers over the years, threatening to overwhelm its rate of job creation. The state attracted 4.3 million people over the last decade, the most of any state. Unemployment has edged closer to the national average. It also faces a \$27 billion shortfall in its 2011-12 budget, which may force cuts in areas where Texas needs to invest—namely education and infrastructure—just to keep up.

Some high-tax states can overcome this disadvantage when other conditions are right. San Jose, Calif.-based Cypress Semiconductor acquired an existing wafer-fabrication plant in Bloomington, Minn., and is growing the facility for the third time. “We found a good Midwestern work ethic, great stability and good schools,” CEO T.J. Rodgers said. “It’s an excellent plant comparable in cost to what we can get in China.”

California, once a business friendly state, continues to conduct a war on its own economy. According to the Pacific Research Institute, it has the fourthlargest government of all U.S. states, with spending equal to 18.3 percent of GDP. The comparable figure for Texas is 12.1 percent. Survey respondents uniformly say the state’s regulators are hostile. “No one in his right mind would start a new manufacturing concern here,” said one California CEO.

Although California is not unique in pursuing policies that prompt wealth and job creators to expand elsewhere, (New York being a good example), the Golden State seems uniquely oblivious to the effect its labor and other regulations are having on its innovative and growth-oriented Silicon Valley. Job growth in the Valley has flatlined. Firms keep their HQs there, but pursue growth in friendlier states. Google,

40	Vermont	36	-4
41	Ohio	43	2
42	West Virginia	34	-8
43	Hawaii	42	-1
44	Connecticut	44	0
45	Massachusetts	46	1
46	Michigan	48	2
47	New Jersey	47	0
48	Illinois	45	-3
49	New York	49	0
50	California	50	0

Sacramento seems to take perverse delight in job-killing regulation, of which the pair of bills known as California's "Green Chemistry Initiative" that former Gov. Arnold Schwarzenegger signed into law in September 2008 serve as an example. The regulations mandated that "manufacturers seek safer alternatives to toxic chemicals in their products, and create tough governmental responses for lack of compliance." When the 92-page final set of commands was issued, the "green community" demanded a rewrite with even tougher requirements. Writing in the *Washington Examiner*, Chapman University Law professor Hugh Hewitt said that the new rules will mandate testing and labeling changes on tens of thousands of products, likely triggering product recalls. "Take whatever you think is the worst regulatory regime out there, and expand it exponentially."

Then there is the state's carbon emission law (AB 32), which the Small Business Roundtable and PRI say will cost half a million in foregone jobs in 2011 and up to 1.3 million jobs by 2020. What's more, it is by no means certain the law will reduce carbon emissions since it only applies to California.

Fortunately, there are states that have come to their senses. New Jersey Gov. Chris Christie, who confronts one of the nation's worst pension underfunding problems, is using the prospect of insolvency to push for significant pension reductions. In his move to end public sector collective bargaining to get control of the state's budget, Wisconsin's Scott Walker made Chris Christie appear reasonable. Indiana Governor Mitch Daniels slowed state government payrolls to the point where Indiana has the nation's fewest state employees per capita. In addition, while at least 35 states raised taxes during the recession, Indiana cut them.

These are some of the actions that encourage business leaders. As another CEO respondent remarked, "We need some political backbone to control spending, address out-of-control debts, and use common sense on environmental and other governmental regulations. Quit demonizing businesses. Who do they think provide real jobs?"

[See the full grades for each state](#)

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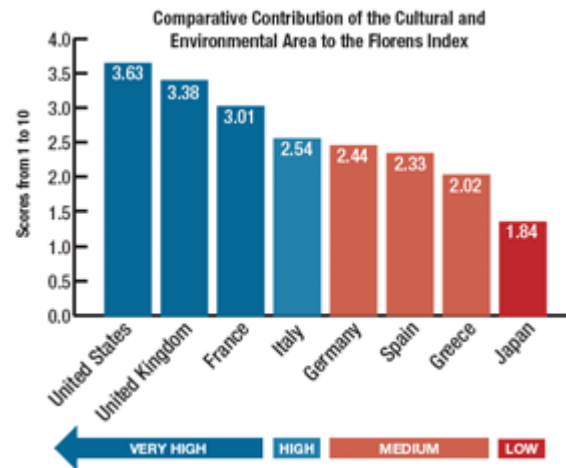
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BIGGEST GAINS FROM 2010				BIGGEST LOSSES FROM 2010			
2011 RANK	STATE	2010 RANK	CHANGE	2011 RANK	STATE	2010 RANK	CHANGE
24	Wisconsin	41	17	31	Alaska	21	-10
27	Louisiana	40	13	42	West Virginia	34	-8
6	Indiana	16	10	39	Pennsylvania	32	-7
11	Oklahoma	19	8	19	Idaho	13	-6
17	Kentucky	23	6	26	Alabama	20	-6

RANK		RANK		RANK		RANK	
11	Oklahoma	31	20	48	Illinois	8	-40
27	Louisiana	46	19	41	Ohio	22	-19
23	Missouri	41	18	34	Washington	16	-18
14	Wyoming	30	16	37	Maryland	21	-16
17	Kentucky	33	16	39	Pennsylvania	27	-12

CULTURE COUNTS

Beyond schools and affordable housing, culture can play a significant role in regional economics, according to a 2010 study by the Italian consulting firm The European House-Ambrosetti. In analyzing the economic impacts of cultural institutions, Ambrosetti found a combined overall direct and indirect impact multiplier of 1.34—meaning that every \$1 invested in culture produces \$1.34 in GDP. What’s more, the U.S. ranks highest in leveraging its cultural institutions (see chart).



In 2010, a similar study, “Arts & Economic Prosperity,” found the U.S.’s non-profit arts and culture industry generates \$166.2 billion, and accounts for \$7.9 billion in local tax revenue. For example, the Indianapolis Children’s Museum generates \$73.4 million by attracting people from up to 100 miles away. Companies like Dow Chemical and Eli Lilly also use the museum to recruit executives with families, says Jeffrey Patchen, the museum’s CEO. “Not everyone can afford to go to Disneyland.”

Countries were rated on 55 key performance indicators in four areas—cultural and environmental capital, media, networking and creative industries—to achieve an overall score of each country’s relative ability to leverage cultural institutions for economic impact.

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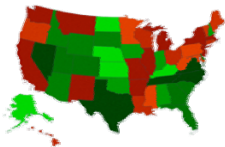
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