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LOUISIANA RANKED ALMOST DEAD LAST FOR DOING BUSINESS

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Last month *Forbes*¹ released a listing of the 50 states ranked according to each one's attractiveness as a place for doing business. In preparing this listing *Forbes* applied a total of 32 criteria including poverty rate, cost of labor and energy, transportation and bond ratings, unemployment and presence of big companies. In this report, we have sifted through the *Forbes* findings to focus on the three best states, the three worst states, and where Louisiana fits in the context of six general factors of attractiveness.

Across all six factors taken together, the three states identified as best were Virginia, Utah, and North Carolina. In 2006 the top three states were Virginia, Texas, and North Carolina.

The three worst states in 2007 were Maine, Louisiana, and West Virginia. One year earlier the bottom three states were Mississippi, West Virginia, and Louisiana. No doubt reflecting the impact of two severe hurricanes in 2005, Louisiana was the only state that experienced a decrease (0.9 percent) in gross state product -- the value of all goods and services produced in the state -- over the last five years.

The six factors used in the *Forbes* study were: business costs (labor, energy, taxes), labor (educational attainment, net migration, projected population growth), regulatory environment (regulatory & tort climate, incentives, transportation & bond ratings) economic climate (jobs, income, GSP growth, unemployment, presence of big companies), growth prospects (projected job, income, GSP growth, business openings/closings, venture capital investments), and quality of life (schools, health, crime, living costs, poverty rate).

| | <u>Best States: 1-2-3</u> | <u>Worst States: 48 – 49 – 50</u> |
|------------------|------------------------------------|------------------------------------|
| Business costs | S.Dakota, Wyoming, Tennessee | N.York, California, Massachusetts |
| Labor | N.Hampshire, Colorado, Maryland | Mississippi. W.Virginia, LOUISIANA |
| Reg. environment | Virginia, N.Carolina, Michigan | Wyoming, R.Island, W.Virginia |
| Economic climate | Florida, Hawaii, Idaho | Kentucky, Kansas, Michigan |
| Growth prospects | Colorado, Texas, Florida | Montana, Ohio, W.Virginia |
| Quality of life | Minnesota, Massachusetts, N.Jersey | Nevada, LOUISIANA, N.Mexico |

¹ Kurt Badenhausen, "The Best States for Business," *Forbes*, July 11, 2007.

Massachusetts, Michigan, and Wyoming are unique cases in that they appear as one of the three best states on one factor and one of the three worst states on another factor. Colorado and Florida are special in that they alone appear as one of the three best states on two factors. Among the states listed as one of the three worst, West Virginia is especially noteworthy because it is represented on three factors. Louisiana alone among the other 49 states placed as one of the three worst states on two factors. Those factors for Louisiana were labor (educational attainment, net migration, projected population growth) and quality of life (schools, health, crime, living costs, poverty rate).

To improve in the *Forbes* ranking system from one year to the next a state must overtake the states immediately above it. Below is a listing of the three states ranked immediately above Louisiana in 2007.

| | <u>Louisiana's Rank</u> | <u>States Ranked Just Above Louisiana</u> |
|------------------|-------------------------|---|
| Business costs | 22 | Nevada, S.Carolina, Texas |
| Labor | 50 | Oklahoma, Mississippi, W.Virginia |
| Reg. environment | 41 | Hawaii, California, Connecticut |
| Economic climate | 43 | Mississippi, Indiana, Alaska |
| Growth prospects | 45 | N.Dakota, Maine, Iowa |
| Quality of life | 49 | W.Virginia, Mississippi, Nevada |

Comparing the 5-year GSP growth rates of the three best states and the three worst states is instructive. In general, as expected, growth rates are higher in the best states.

| | <u>GSP Growth Rate</u> | | <u>GSP Growth Rate</u> |
|----------------|------------------------|------------|------------------------|
| Virginia | 4.4 | Maine | 3.1 |
| Utah | 3.5 | Louisiana | -0.9 |
| North Carolina | 3.7 | W.Virginia | 1.6 |

This comparison, however, is not definitive with regard to what differentiates the best states from the worst. Five states had higher growth rates than Virginia but ranked below the top three in terms of overall attractiveness for conducting business.

| | <u>GSP Growth Rate</u> | <u>Overall Ranking</u> |
|------------|------------------------|------------------------|
| Idaho | 4.6 | 6 |
| Florida | 4.9 | 7 |
| Arizona | 5.5 | 18 |
| Nevada | 7.0 | 22 |
| California | 4.5 | 34 |

The *Forbes* article calls special attention to the State of Washington -- ranked 5th in 2007 up from 12th in 2006 -- where several factors have converged over the years to create an environment especially attractive for carrying out business. They include regulatory environment, culture of innovation, venture capital spending, energy costs, leading-edge health institutions.

All but one of these factors requires extraordinary effort from the private sector. However, Louisiana's ranking as a place for doing business is so low that it is unrealistic to expect that kind of private-sector rescue effort. We have, in other words, a classic chicken and egg syndrome. The one exception is regulatory environment where top-ranked Virginia and North Carolina are 1st and 2nd in the nation.

Washington has one state office -- the Office of Regulatory Assistance -- helping businesses sort through the regulatory red tape and handling all necessary permits for new businesses. The same is true for Louisiana which has established a "First Stop Shop" in the Office of the Secretary of State. Even so, Louisiana ranked 41st in regulatory environment whereas Washington ranked 5th. Clearly there is more to creating the right regulatory environment than one-stop shopping. The question is: 'On the other issues covered under regulatory environment -- tort climate, incentives, transportation, bond ratings -- will the new governor to be elected this fall be able and willing to do what is necessary to create a more attractive place for doing business even if it means stepping on some powerful toes, perhaps even the toes of some of his allies?'

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