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2016 BEST & WORST STATES FOR BUSINESS

Why some areas of the country thrive while others see businesses atrophy and people flee at alarming rates

Posted by: J.P. Donlon | May 9, 2016

In our 12th annual canvas of CEO opinion, leaders favor states with fewer regulatory encumbrances and report that most remedies dangled by politicians only make things worse.

Even allowing for geographic location and weather patterns that are immutable, state economic conditions vary widely. The evidence suggests that pro-growth policies influence perceptions of competitiveness, particularly in the eyes of business leaders. Earlier this year, *Chief Executive* asked 513 CEOs to rank states they are familiar with on the friendliness of their tax and regulatory regime, workforce quality and living environment. (This latter category includes not just the cost of living but the education system and the state and local attitudes toward business).

Texas and Florida top the list, as they have every year for the past 12 years that we have conducted this survey. Despite having been hit hard by the shale energy bust, Texas is still held in high esteem by CEOs for its favorable economic reforms. But each year, Florida steadily edges up in the qualitative measures. The Sunshine State added 1 million private-sector jobs over the last five years, cut taxes 50 times and got rid of 4,200 burdensome regulations. In 2014, it surpassed New York as the third-biggest state for companies to flourish.

North Carolina and Tennessee held onto their third and fourth places from last year, while Indiana moved up to fifth place and Arizona leapt from ninth to sixth. South Carolina secured seventh place (up from 10th last year) while Georgia, Nevada and Ohio ranked eighth, ninth and tenth respectively.

The fact that the Buckeye State surged from 22nd place to 10th this year may have something to do with the fact that Ohio has added 350,000 jobs since 2011, and Governor John Kasich reduced taxes by \$4.8 billion, which *The Washington Post* says puts Ohio among the top four tax-cutting states in the U.S.

In this year's survey, we also asked CEOs who operate directly from a state whether they view it as better or worse than leaders with indirect experience. For the most part, the perceptions of CEOs with firsthand experience do not differ widely from overall perceptions of CEOs. There are some exceptions: Hawaii-, Alabama- and Mississippi-based leaders tend to rank their states as more friendly than do CEOs overall. Minnesota, Utah and Pennsylvania, on the other hand, get lower marks from CEOs with firsthand knowledge than from those without direct experience. Louisiana, which once ranked among the top 10, dropped to 37th place, no doubt owing to its current \$940 million budget disaster. Last January, John Bel Edwards, Louisiana's new Democratic governor, said he learned of various "devastating facts" and decided sales of state assets to plug a \$2 billion budget gap.

MOVING ON UP

As important as taxes and regulation are, they aren't the only factor influencing a region's attractiveness. Migration between states illustrates favorable intrinsic conditions, as well as wise policy decisions. From 1992 to 2011, some 62 million taxpayers changed their state of residence, according to IRS records. Estimates suggest this figure is more than the total populations of New York, Illinois and Florida combined.

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This trend of people voting with their feet has benefited North Carolina, Florida and Texas—all three of which are among the top 10 best states this year—as well as states like Utah and Wyoming.

The population losers tend to be the Rust Belt and Northeastern states like New York, Connecticut and New Jersey. Having said this, states such as Indiana, Ohio, Wisconsin and Michigan deserve credit for pro-growth policy reforms in the wake of years of poor policy decisions.

CEOs indicate that the quality of workforce is just as important—in some cases more important than the tax environment. (Utah and Nebraska score highest in workforce quality among all the states.) At \$117 billion GE, CEO Jeff Immelt moved the industrial giant's headquarters from Fairfield, Connecticut to Boston because he felt that the city would give GE access to the advanced thinking and talent afforded by an area with many top universities and colleges offering technical training.

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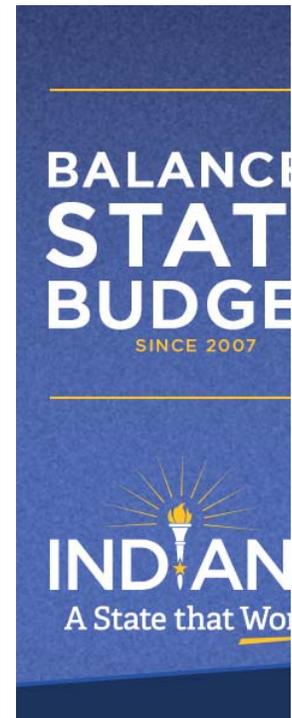
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ABOUT J.P. DONLON



JP Donlon is the Editor-in-Chief of *Chief Executive* magazine.



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