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Review Embargoed Book: GRADING PLACES: What Do The Business Climate Rankings Really Tell Us? http://www.epinet.org/docs/news/grading_places_embargoed.pdf

Press Release

June 28, 2005

Business Climate Rankings - Biased in Favor of Tax Cuts and Less Government Regulation – Useless as Guide for Policymaking, According to New Report by Economic Policy Institute;

Albuquerque - How much credence should state and local legislators give to the picture of a state or city painted by business climate rankings? None, according to a report, ***Grading Places***, released today by the Economic Policy Institute. Author Peter Fisher's critique of five major business ranking indices reveals the biases that underlie them, disputes their methodology, and concludes they do not work as yardsticks of economic potential.

Rankings Used to Promote Conservative Political Agenda

"The indices are designed to promote a particular, usually anti-tax, political agenda," said Fisher. None of them actually do a very good job of measuring what it is they claim to measure."

The indices vary widely in their outcomes. New Mexico's tax climate for business, for example, is ranked 40th by one, while being ranked 6th best tax climate by the Cato Institute. But they have one thing in common: they claim that lower taxes and fewer government regulations are better. And, they draw policy conclusions from those conclusions.

The *Fiscal Policy Report Card on America's Governors* is a good example. Published by the Cato Institute

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(that gave Governor Richardson its highest grade for a Democratic governor), the title suggests it measures how well America's governors manage state finances. In fact, the highest "grades" are given to "Governors who cut taxes and spending the most". The *Report Card* does little more than reward governors who aggressively push the Cato Institute's agenda of limited government and tax cuts.

Better Measures of State Business Climate and Economic Performance Exist

Useful report cards, such as *Forbes* magazine's "Best Places", base their assessment of business climates and economic performance on a far broader range of factors such as school quality, transportation and health care – not just tax cuts.

The Center for Economic Development's (CFED) "*Development Report Card for the States*" grades states for economic performance and business vitality, among other things. This report card assesses if a state's economy generates a widely-shared and sustainable standard of living.

"The CFED report card is a useful barometer of our state's economic performance," said Gerry Bradley, economist with New Mexico Voices for Children. The report card gives New Mexico failing grades for "Performance" in the areas of earnings and job quality due to the number of working poor in low wage jobs, high poverty rates, and lack of employer-provided health coverage. It also gave New Mexico an "F" in "Development Capacity" for extremely low basic educational skills, particularly in reading (49th) and math (49th).

"A legitimate report card on a state's business climate looks at the whole picture – not just whether tax cuts have been prioritized. In New Mexico significant tax cuts have been made. And the state's economic performance – and its ability to invest in its people – is dismal. That is the futility of tax cuts in New Mexico," said Mr. Bradley.

New Mexico Can Boost Economic Performance, Reduce Poverty

There are at least three steps New Mexico's policymakers can take to boost our economy, according to Bradley:

1. Increase the quality of New Mexico's low-wage jobs by increasing the state minimum wage;
2. Adequately fund the healthcare infrastructure which both creates jobs and supports a positive business climate; and
3. Make a much greater investment in education, particularly early education, which will pay off in improved basic skills and, ultimately, job readiness.

"New Mexico should invest its dollars in education and healthcare rather than giving ineffective tax cuts to the wealthy", concluded Bradley.

Peter Fisher, author of *Grading Places* is a professor in the Graduate Program in Urban and Regional Planning at the University of Iowa, where he has taught since 1977. He is also the Research Director for the Iowa Policy Project, a state level, nonprofit public policy research organization that focuses on the Iowa economy and state budget and tax policy.

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