

## RESURGENT MIDWEST, INSURGENT GROWTH

*A project of the  
Midwestern Legislative Conference of The Council of State Governments'  
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### Annual Economic Check-Up, 2009

## WISCONSIN

### RECENTLY RELEASED STATE BENCHMARKS

#### What Did Recent Report Cards Conclude About Wisconsin in 2008?

Each year state legislators and decision makers are dumped upon, often unexpectedly, with reports/benchmarks prepared by outside entities that show how their state stacks up against others. They are called upon to deal with each report as it is released, with insufficient time to step back, look for the 'big picture' that several reports combined might be pointing to, identify needs/issues a particular report does not address well or challenge its assumptions. The table and brief summary below is designed to provide a visual and comprehensive overview of all widely cited recent economic and talent-related report cards. The publication dates are primarily 2008 and 2009. In most cases, the data year is 2008, the most recent year of complete annual data on the states.

The key scores/ranks/grades from 24 report cards are organized under 14 categories below. The only uniform way to compare across report cards is to use their rankings for each category as shown below. Despite wide-ranging methodology, data sources, and completeness, taken together, the reports usually tell a congruent story within each category. Yes, within each category the rankings may vary 10 points or so but surprisingly one can usually conclude where a state places on a five point scale with ranges described as follows: **very high performer; high performer; mid performer; low performer and very low performer**. This offers legislators and other decision-makers the opportunity

to quickly appraise areas of a state's strength or vulnerability. In a few cases rankings differ widely within a category. Such results deserve further investigation. The reason might be due to the fact that the various reports are not measuring the same thing or that they are deploying very different methods and data sources.

Legislators have asked for guidance as to which report cards are most reliable / carefully constructed. The nine report cards shown below are those most preferred because they focus primarily on outcome measurements, strive to be comprehensive, and have transparent methods whereby their results can be replicated by others.

[Beacon Hill Institute at Suffolk University in Boston](#)

[Corporation for Enterprise Development \(CFED\)](#)

[Education Weekly- Quality Counts 2009](#)

[GrowthEconomics State Competitiveness and Entrepreneurship ScoreCards](#)

[Kauffman Foundation / Information Technology and Innovation Foundation, New Economy Index](#)

[Milken Institute Cost of Doing Business Index and Milken Institute State Technology and Science Index](#)

[Morgan Quitno, Education State Rankings – Smartest State Award](#)

[The National Center for Public Policy and Higher Education “Measuring up 2008”](#)

[PEW – Grading the States 2008; States in Fiscal Peril](#)

<b>Wisconsin Summary of Current State Competitiveness and ‘Best States for Business’ Reports</b>	
<b>OVERALL ECONOMIC PERFORMANCE – mid/low performer</b>	<b>Rank/grade (rank 1 is best)</b>
- ALEC-Laffer State Economic Competitiveness Index (2009) Economic Performance (10-year change)	41
- Corporation for Enterprise Development, 2007 Development Report Card for the States	
Employment	44 (30 in 2002)
Earnings & Job Quality	11 (11 in 2002)
Equity	3 (4 in 2002)
- Forbes The Best States For Business (2009) Economic Climate	41
- GrowthEconomics Competitiveness ScoreCard (2010)	
State Economic Prosperity Index	20 (25 in 2002)
State Economic Growth Index (recent 3-year change)	24 (25 in 2002)

<b>BUSINESS ATTRACTION / GOOD PLACE TO DO BUSINESS</b>	
<b>Cost of Doing Business – low performer</b>	
- Milken Institute 2007 Cost of Doing Business Index	28
- GrowthEconomics Competitiveness ScoreCard (2010) Business Costs	31 (30 in 2002)
- CNBC America's Top States for Businesses 2009 Business Costs	27
- Forbes The Best States For Business (2009) Business Costs	35
- Chief Executive US Best and Worst States for Business 2009 Business Costs	36
<b>Access to Capital -- mid/low performer</b>	
- GrowthEconomics Entrepreneurship ScoreCard (2010) Capital Formation	40 (39 in 2002)
- CNBC America's Top States for Businesses 2009 Access to Capital	32
- Chief Executive US Best and Worst States for Business 2009 Access to Capital	27
- Corporation for Enterprise Development, 2007 Development Report Card for the States Financial Resources	23 (19 in 2002)
<b>Legal Climate -- high performer</b>	
- GrowthEconomics Competitiveness ScoreCard (2010) Legal Climate	22 (24 in 2002)
- Directorship's Boardroom Guide to State Litigation Climates (2009)	9
- Pacific Research Institute US Economic Freedom Index 2008 Report Judicial	12
<b>Regulatory Climate -- mid/low performer</b>	
- Forbes The Best States For Business (2009) Regulatory Environment	37
- Mercatus Center Freedom in the 50 States (2009) Regulatory Policy	23
- Pacific Research Institute US Economic Freedom Index 2008 Report Regulatory	27

<b>Tax and Fiscal Climate -- low performer</b>	
- ALEC-Laffer State Economic Competitiveness Index (2009) Economic Outlook	27
- Small Business Survival Index 2009	32
- Tax Foundation, State Business Tax Climate Index FY2010	42
- Beacon Hill Institute, State Competitiveness Report (2009) Government and Fiscal Policy	34 (45 in 2002)
- Mercatus Center Freedom in the 50 States (2009) Fiscal Policy	42
- Pacific Research Institute US Economic Freedom Index 2008 Report Fiscal	49
- GrowthEconomics Competitiveness ScoreCard (2010) Fiscal Constraint on Growth	13 (4 in 2002)
- The PEW Center on the States, Beyond California: States in Fiscal Peril (2009)	22
<b>BUSINESS DYNAMISM</b>	
<b>Technology &amp; Innovation Indices -- mid performer</b>	
- Kauffman Foundation / ITIF, The 2008 New Economy Index	33 (37 in 2002)
- Milken Institute State Technology and Science Index (2008)	22 (25 in 2002)
- Beacon Hill Institute, State Competitiveness Report (2009) Technology	23 (29 in 2002)
- Corporation for Enterprise Development, 2007 Development Report Card for the States Innovation Assets	26 (24 in 2002)
- CNBC America's Top States for Businesses 2009 Technology & Innovation	18
- Chief Executive US Best and Worst States for Business 2009 Technology & Innovation	22
- GrowthEconomics Competitiveness ScoreCard (2010) Technology & Innovation	25 (10 in 2002)
<b>Entrepreneurial Economy -- low performer</b>	
- Corporation for Enterprise Development, 2007 Development Report Card for the States Entrepreneurial Energy	35 (39 in 2002)
- GrowthEconomics Entrepreneurship Score Card (2009) Entrepreneurial Change (recent 3-year change)	36 (29 in 2002)
Entrepreneurial Vitality	40 (48 in 2002)
Entrepreneurial Climate	26 (18 in 2002)

<b>International Business Activity – low performer</b> <ul style="list-style-type: none"> <li>- GrowthEconomics Competitiveness ScoreCard (2010) International Activity</li> <li>- Kauffman Foundation / ITIF, The 2008 New Economy Index Globalization</li> <li>- Beacon Hill Institute, State Competitiveness Report (2009) Openness</li> </ul>	26 (27 in 2002)  41  33 (30 in 2002)
<b>OVERALL WORKFORCE / EDUCATION</b>	
<b>General – variable performer</b> <ul style="list-style-type: none"> <li>- CNBC America's Top States for Businesses 2009 Education Workforce</li> <li>- GrowthEconomics Competitiveness ScoreCard (2010) Education Workforce Preparedness</li> <li>- Beacon Hill Institute, State Competitiveness Report (2009) Human Resources</li> </ul>	  11 44  3 (9 in 2002) 34 (31 in 2002)  19 (18 in 2002)
<b>Innovation Workforce – low performer</b> <ul style="list-style-type: none"> <li>- TechAmerica CyberStates (2009) Tech Industry Employment</li> <li>- Kauffman Foundation / Information Technology and Innovation Foundation, New Economy Index (2008) Knowledge Jobs</li> <li>- GrowthEconomics Competitiveness ScoreCard (2010) Workforce</li> </ul>	  35  25  34 (31 in 2002)
<b>K-12 – high/very high performer</b> <ul style="list-style-type: none"> <li>- GrowthEconomics Competitiveness ScoreCard (2010) K-12 Education</li> <li>- ALEC-Report Card on American Education (2008)</li> <li>- Morgan Quitno, Education State Rankings 2006/2007</li> <li>- Education Weekly 2009 Quality Counts</li> <li>- Measuring up (2008) Preparation</li> <li>- U.S. Chamber of Commerce, Leaders and Laggards 2007 Postsecondary and Workforce Readiness</li> </ul>	  8 (17 in 2002) 13 (3 in 2002) 8 (6 in 2002-2003)  C+  B (A- in 2002)  B

<p><b>Postsecondary – high performer</b></p> <ul style="list-style-type: none"> <li>- GrowthEconomics Competitiveness ScoreCard (2010) Postsecondary Education</li> <li>- Measuring up (2008) Participation Affordability Completion Benefits</li> </ul>	<p>7 (10 in 2002)</p> <p>C+ (B in 2002)</p> <p>F (C in 2002)</p> <p>A- (B in 2002)</p> <p>C (C+ in 2002)</p>
<p><b>OVERALL GOVERNMENT PERFORMANCE – high performer</b></p> <ul style="list-style-type: none"> <li>- The PEW Center on States, Grading the States (2008)</li> </ul>	<p>B-</p>

## Commentary

Overall, Wisconsin scores at or below mid point on **economic performance**. According to GrowthEconomics its overall score is held back by a relatively high long-term unemployment rate and low non-labor income. The state is notable for qualitative aspects of economic well-being -- in the top 10 in the Corporation for Enterprise Development ranking on social equity. Regarding **economic growth**, GrowthEconomics ranks the state at 24 while ALEC-Laffer and Forbes both at 41.

Wisconsin's **cost of doing business** is ranked below average in the 3<sup>rd</sup> and 4<sup>th</sup> quintile with a weakness in industrial rental costs, unit labor costs (which receives a high weight in the GrowthEconomics ranking), and unemployment insurance costs.

**Access to capital** equally ranks the state in the 3<sup>rd</sup> and 4<sup>th</sup> quintile with some signs of slippage. Small business lending ranks the state in the top 10 but several below average performances show up stronger in the GrowthEconomics ranking due to different methodologies.

The **legal climate** in Wisconsin performs above average with the GrowthEconomics ranking being held back by business liability costs which fall in bottom 10. In contrast, the **regulatory environment** ranks in the 3<sup>rd</sup> and 4<sup>th</sup> quintile.

The state's **tax and fiscal climate** ranks Wisconsin mostly below average, being held back by low scores in property tax burdens, fuel taxes and estate/inheritance taxes with better scoring in remaining tax burden (besides income and property), individual capital gains taxes, low government spending growth, a small government employment base and minimum wage. The ALEC report ranks the state a bit higher at 27<sup>th</sup> due to a low minimum wage and a low level of government employment. The rank 11 by GrowthEconomics indicating that the fiscal condition as not an undue constraint on growth is based on Wisconsin's high share of own-source revenue and a low differential between tax and economic growth. In contrast, the PEW ranking is pulled down by a relatively high budget gap.

On **technology & innovation indices** Wisconsin ranks in the middle of the pack, with strength in university royalty income, university R&D and patents (relative to R&D investment). The rankings are pulled down by underperformance in federal R&D and university spin-off businesses. The state shows

scores lower in **Entrepreneurial indices**, with Entrepreneurial Climate at average but other measures of entrepreneurial activity and change ranking Wisconsin in the 4<sup>th</sup> quintile. Wisconsin ranks only 40<sup>th</sup> in entrepreneurial vitality due to its second to last place in self-employment. **International activity** in the state equally ranks below average. The Kauffman index ranks the state at 41 but this is using just two metrics one on exports and the other on foreign direct investment. The GrowthEconomics International Activity score at 26 takes five metrics into account. Wisconsin's performance is boosted by its share of export-related jobs.

Regarding **Workforce** Wisconsin's low technology industry employment affects its performance at or below average in the Kauffmann, TechAmerica and GrowthEconomics **innovation workforce** rankings. The combining of education and workforce measures by Beacon Hill leads to a top 10 ranking for Wisconsin. Separation of education from workforce scores by CNBC and GrowthEconomics shows the asset of education in Wisconsin as very strong while its workforce remains below average. The CNBC workforce ranking in the bottom 10 might be influenced by measures on union membership or state training programs not included in the other reports.

**K-12 education** in Wisconsin is a real asset to the state with most reports placing the state in the 1<sup>st</sup> or 2<sup>nd</sup> quintile. Education Week's score is held back a bit by the state's low score in support for college readiness.

**Postsecondary education** in the GrowthEconomics report and the 'Completion' segment of the Measuring Up report (both focused on outcome) both place Wisconsin among the top 10 states and showing improvement. The state only receives a grade C+ for 'Participation' due to a low adult college enrollment and an average score for 'Benefits' from education due to a lack of income gains from education in the state. Typical for the Midwest, 'Affordability' has become an increasing liability.

The PEW center grades the Wisconsin's **government performance** at a B- at the national average with strength in financial controls/reporting and intergovernmental collaboration but weaknesses in structural balance, capital planning and managing for performance.

**The Bottom Line: Overall Wisconsin's economic performance has been somewhat above average while economic growth in recent years has been slipping. Business climate is impeded by unimpressive scores on the cost of doing business, legal climate, and tax and fiscal policy. Education is the state's dominant strength. Key growth agents of workforce preparedness, technology competitiveness, entrepreneurial dynamism and international activity score at or below the median and deserve special attention in economic strategy going forward.**



## METHODOLOGY

Benchmarking reports are designed to look for major performance outcomes relative to competitors. They evaluate each state's performance on a multitude of measures, standardize each measure in order to make them comparable to each other, and then usually summarize the results in an aggregate rank, score or grade for each state.

Twenty four source reports are included in the comparison table, each briefly described below in alphabetical order. These have been selected because they are produced annually or biannually and include all states. Each attempts to address the economic and/or human capital conditions of states from a panoramic perspective. They are the ones most likely to be cited in state policy discussions or by the media when providing state commentaries.

Providing comparisons between these report cards on the basis of overall state score or rank is not particularly helpful, sometimes even confusing. However, comparisons across major categories or headers within these report cards can be quite instructive. The comparison table for each state is organized under 14 such categories showing each state's ranking. Each report card that uses a particular category is cited. Rankings were found to be the only simple, common basis for comparison. Where a report card does use rankings or grades, its scores have been converted to ranks.

### Briefing on each Major State Report Card

#### **ALEC-Laffer State Economic Competitiveness Index – Rich States, Poor States (2009)<sup>1</sup>**

The report intends to evaluate a state's fiscal and economic policies, as well as the results and ramifications of those policies. It combines with equal weight 15 policy variables that have been linked to impact on the migration of capital — both investment and human — into and out of states to create the Economic Outlook Rankings of the states. The report also includes an Economic Performance Rank as a historical measure based on a state's performance over 10 years in Personal Income Per Capita, Absolute Domestic Migration, and Non-farm Payroll Employment. Reasons for the movement of human and financial capital into and out of a state are central to this report. This report along with the Small Business Survival index is based on the assumption that business growth is predominately influenced by incentives and disincentives created by taxation and regulation.

#### **ALEC - Report Card on American Education 2008<sup>2</sup>**

The key policy claim of ALEC's Report Cards is the assertion that student achievement has not been improved by increased spending on education or improved teacher salaries. It provides more than 100 measures of educational resources and achievement for state comparison but without extensive analysis and sometimes without taking the size of the state population or economy into account (it does provide the national average as a benchmark). It has been criticized that its key policy statements in the report, such as its strong support for charter schools, are not actually supported by its own data.

#### **Beacon Hill Institute - State Competitiveness Report 2009<sup>3</sup>**

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<sup>1</sup> [http://www.alec.org/AM/Template.cfm?Section=Rich\\_States\\_Poor\\_States](http://www.alec.org/AM/Template.cfm?Section=Rich_States_Poor_States)

<sup>2</sup> [http://www.alec.org/AM/Template.cfm?Section=Report\\_Card\\_on\\_American\\_Education](http://www.alec.org/AM/Template.cfm?Section=Report_Card_on_American_Education)

<sup>3</sup> <http://www.beaconhill.org/CompetitivenessHomePage.html>



The Beacon Hill Institute at Suffolk University in Boston first published a “State Competitiveness Report” in 2001. In 2002, the report was expanded to include rankings of the 50 largest metropolitan areas and was renamed the “Metro Area and State Competitiveness Report.” It reports an index of long-term competitiveness (stated to affect growth in per capita income) with over 40 underlying variables that include both outcome measures (e.g. unemployment rate) and correlates of income (e.g. bank deposits), having led to some criticism about the extent to which the overall index really predicts differences in state per capita income. Most of the variables used are only available for a subset of the states. Measures are not weighted.

#### **Chief Executive – US Best and Worst States for Business 2009<sup>4</sup>**

*Chief Executive's* fifth annual survey asked 543 CEOs to evaluate their states on a broad range of issues, including proximity to resources, regulation, tax policies, education, quality of living and infrastructure. Providing additional insight to the evaluations, CEOs were also asked to grade each state on: 1) Taxation & Regulation, 2) Workforce Quality, and 3) Living Environment. This one of a few report cards cited in this report that is based on survey data.

#### **CNBC - Top States for Businesses 2009<sup>5</sup>**

For the second year, CNBC compares the states on (in descending order of importance): Cost of Doing Business, Workforce, Economy, Education, Quality of Life, Technology & Innovation, Transportation, Cost of Living, Business Friendliness, and Access to Capital. States receive points on their ranking in each of the 40 metrics which are then aggregated into the above categories. Each category is weighted according to how frequently each is cited in state economic development marketing materials. The categories were chosen with input from business groups including the National Association of Manufacturers. Differences with other report cards (unusual metrics or emphasis) are: its workforce category includes the effectiveness of state training programs; its education category includes K-12 spending (most other reports cited focus on performance); a transportation category that measures among other things the value of goods shipped. The exact detail of each measure (source, year of data, etc.) is not disclosed.

#### **Corporation for Enterprise Development (CFED) – 2007 Development Report Card for the States<sup>6</sup>**

CFED's Development Report Card is the earliest and most long-published annual state benchmarking product. It commenced in 1986. Its last publication was 2007 and may be discontinued. It organizes results under three categories: economic performance, business vitality and development capacity using more than 60 metrics. CFED takes much care with the collection and refinement of data. The Rankings for each variable are averaged into sub-indices and then into the three main indices. Grades are assigned without curving, i.e. states with a rank 1 to 10 earn an A, those with an average rank between 11 and 20 earn a B, etc. All measures are weighed equally. Most of the data is 2-3 years old. CFED was first to introduce the notion that growth is not only a function of business costs and regulatory environment much more subtle a deep-seated factors affect state development capacity including social equity, entrepreneurship, and economic foundations such as education and infrastructure. In fact the report seeks to explain how prior investments in development capacity may have affected current scores in economic performance and business vitality.

#### **Directorship – Annual Boardroom Guide to State Litigation Climates 2009<sup>7</sup>**

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<sup>4</sup> <http://www.chiefexecutive.net/media/usbestandworststates/2009/>

<sup>5</sup> <http://www.cnbc.com/id/31763805>

<sup>6</sup> <http://www.cfed.org/focus.m?parentid=34&siteid=2346&id=2346>

The guide is a collaboration of Directorship and the Foundation for Fair Civil Justice, a national coalition of more than 70 organizations working together to achieve business liability reforms at the state level (formerly known as the American Justice Partnership Foundation). Its analysis is mainly based on two reports: the Pacific Research Institute (PRI) Tort Liability Index and the Institute for Legal Reform Harris State Liability Rankings. In 2009 they added further data from: the PRI Tort Law Tally; an assessment of both improvements and declines in various states based on tort insurance losses and premiums; and political trends in the states based on the 2008 and more recent election results. Based on the combined results of the new statistical data and political factors, the 2009 Boardroom Guide provides a snapshot of the business legal environments and a best-to-worst ranking of all 50 states.

### **Education Week - Quality Counts 2009<sup>8</sup>**

This is an annual report card tracking state education policies and outcomes. It draws heavily on data from the Editorial Projects in Education Research Center's annual state policy surveys to the chief state school officers in all 50 states and the District of Columbia providing a comprehensive state-by-state analysis of key indicators of student success with English-language learners as the special focus of this year's report. States are evaluated on Chance for Success; transitions and alignment; school finance; K-12 achievement; standards, assessments, and accountability; and the teaching profession. Categories consisting of numerical indicators—Chance for Success and school finance—are graded using a best-in-class rubric (the leading state on a particular indicator receives 100 points). For some of the indicators—such as those related to the equity of education spending—the report evaluates a particular state based on its performance relative to the minimum and maximum values on that indicator. Those indicators are scored on a 50-point base, meaning that all states start with 50 points rather than zero. To compute a state's score for a given category, points are averaged across the respective set of indicators. The Chance-for-Success and school-finance categories consist of 13 and eight indicators, respectively. On a best-in-class scale, a state's overall score for a category can be gauged against an implicit standard where 100 points would correspond to a state that finished first in the nation on each and every measure. The indicators reported in the transitions and alignment section of Quality Counts 2009 consist of non-numerical measures showing whether a state has implemented a particular policy or program. This section is graded on a 50-point base, with a state's final score reflecting the percent of tracked policies that it has implemented. A state that has enacted all policies in this category would receive the perfect score of 100 points. The 14 policies in the transitions and alignment area receive equal weight in the grading. After rounding scores to the closest whole-number values, the report assigns letter grades based on a conventional grading scale.

### **Forbes - The Best States for Business (2009)<sup>9</sup>**

In its third year, the state rankings measure states on 32 measures in six main areas of importance: business costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. The report appears to use a weighting methodology but no detail is provided on the exact measures or how the rankings are created.

### **GrowthEconomics Competitiveness and Entrepreneurship ScoreCards**

The GrowthEconomics ScoreCard products utilize state of the art benchmarking methodologies from in the U.S. and abroad. Every effort is used to include the most recent data from multiple public and private sources checked for credibility and reliability. Over 100 metrics are used over 7 years. As new

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<sup>7</sup> <https://www.directorship.com/magazine/current-issue/>

<sup>8</sup> <http://www.edweek.org/ew/toc/2009/01/08/index.html>

<sup>9</sup> [http://www.forbes.com/2008/07/30/virginia-georgia-utah-biz-cz\\_kb\\_0731beststates\\_table.html](http://www.forbes.com/2008/07/30/virginia-georgia-utah-biz-cz_kb_0731beststates_table.html)

data becomes available, the measures for previous years are revised. In this way, the ScoreCard annually provides the most up to date data set for both current and previous years. If a new metric is added, measures are obtained for all back years. Metrics are standardized using a 'modified median' scoring method believed to be state the art. Scores are averaged into sub-drivers and drivers without weighting. The annual ScoreCards are designed to look for major performance outcomes relative to competitors. They are not intended to measure the effectiveness or efficiency of specific programs or agencies. While the Competitiveness ScoreCard focuses on the drivers of economic growth and prosperity more generally, the Entrepreneurship ScoreCard's focus is on three drivers of entrepreneurial dynamics and climate. In both cases, the reports make a concerted effort in separating inputs and process from outcomes and in separating the level of a metric with its change over time. The underlying focus of GrowthEconomics is that the private sector is the primary jobs generator and that growth businesses are primary contributors to sustainable growth.

### **Kauffman Foundation / Information Technology and Innovation Foundation - New Economy Index 2008<sup>10</sup>**

The purpose of this Index is to educate policy makers about what drives the New Economy and promote policy initiatives that encourage innovation in technology, economics and entrepreneurship. In the Benchmark Study (1998) the New Economy Index did not rank the states individually. The report is now supported by the Kauffman Foundation with 29 indicators for five topic areas: Knowledge Jobs, globalization, economic Dynamism, Digital Economy, and Innovation Capacity. The scores are standardized and weighted according to importance and to make sure closely correlated variables do not bias the results. Knowledge Jobs and Innovation Capacity received the highest overall weight. The sum of standardized scores for each topic area is evaluated relative to the top performer in that topic.

### **Mercatus Center, George Mason University - Freedom in the 50 States<sup>11</sup>**

This new index ranks the 50 American states on their public policies affecting individual freedoms in the economic, social, and personal spheres. It includes measures of social and personal freedoms such as peaceable citizens' rights to educate their own children, own and carry firearms, and be free from unreasonable search and seizure. All variables are available for all 50 states and it claims to use new, more accurate measurements of key variables, particularly state fiscal policies. The three key indices that make up the overall score, fiscal, regulatory and paternalism (economic and personal freedom) are weighted according to the salience of the issue (i.e., the substantive importance of state policy variation) and the number of people affected by it. They use the existence of explicit constitutional protections at either the federal or state level as prima facie evidence of high salience. The underlying variables are adjusted for the size of the economy and standardized relative to the number of standard deviations from the average state.

### **Milken Institute – 2007 Cost of Doing Business Index<sup>12</sup>**

The Index measures fundamental business costs, including labor (wage per employee), overall tax burden (not just business), electricity and real estate rental costs; factors that indicate each state's comparative advantages or disadvantages in attracting and retaining businesses. Each state is measured on the five individual categories compared to the national average, and the weighted scores (in order of descending importance as listed above) are compiled to make the overall index. This is a very targeted index that mostly focuses on wage costs (50% of the weight).

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<sup>10</sup> <http://www.itif.org/index.php?id=200>

<sup>11</sup> [http://www.statepolicyindex.com/?page\\_id=143](http://www.statepolicyindex.com/?page_id=143)

<sup>12</sup> <http://www.milkeninstitute.org/publications/publications.taf?function=indexes>

### **Milken Institute – 2008 State Technology and Science Index<sup>13</sup>**

Designed to provide states with a measure of their technology and science rankings, this index aids states in determining what technology and science assets can be leveraged to increase economic activity. The first report was introduced in 1992. It is published however irregularly, with the most recent report from 2008 with back rankings for 2004. It contains 5 sub-indices on R&D inputs, Risk Capital and Entrepreneurial Infrastructure, Human Capital Investment, Technology and Science Work Force, and Technology Concentration and Dynamism. It factors in 77 individual indicators that comprise five equally weighted major composites. To achieve a score of 100 on any of the five major composites, a state would have to rank first in every one of the indicator components, a virtually impossible feat. Second place was assigned a score of 98, a 3rd-place ranking was assigned a score of 96, and so forth, all the way down to the 50th-place ranking, which garners a score of 2. The individual category scores are averaged (with the exception of industrial R&D spending, which received a higher weight) to derive each state's score on a given composite index. Scores on all five composites are then averaged together to calculate a state's overall score. Each indicator is benchmarked to a relevant measure, such as population, Gross State Product, or number of establishments, in order to adjust for the absolute size of a state's economy.

### **Morgan Quitno - Education State Rankings – Smartest State Award 2006-07<sup>14</sup>**

The Smartest State Award is based on 21 key elementary and secondary education indicators reported from Education State Rankings, an annual reference book that compares the 50 United States in hundreds of education-related categories. The 2006 award measures states based on factors including expenditures for instruction, pupil-teacher ratios, high school graduation and dropout rates, and reading, writing and math proficiency. The state is measured against the national average and its score summed up to rank it among the smartest states.

### **National Center for Public Policy and Higher Education - Measuring up 2008<sup>15</sup>**

The purpose of the report is to provide the public and policymakers with information to assess and improve opportunity and effectiveness of a state's postsecondary education system (beyond high school through to bachelor's degree). It focuses on how successful colleges are at educating undergraduates, primarily from a quantitative rather than qualitative standpoint. Almost all measures are relative shares (share of students or share of the population) and it includes some international comparisons (though it has been criticized for not taking different methodologies into account). Indicators, or measures, are selected for each performance category: preparation, participation, affordability, completion, and benefits. Each indicator is assigned a weight based on its importance to the performance category. State results, or raw scores, on each indicator are converted to an "index" scale of 0 to 100, using the performance of the top five states as the benchmark. State scores for each category are calculated from the state's results on the indicators and the indicators' weights. In each category, the sum of all the index scores on the indicators is converted to a scale of 0 to 100, based on the performance of the top state in the category. Grades are assigned based on the category index scores, using a grading scale common in many high school and college classes.

### **Pacific Research Institute – U.S. Economic Freedom Index 2008<sup>16</sup>**

The report focuses on state and local government actions as they relate to economic freedom. It compiles 143 indicators and from that they create five data sets; these data sets were converted into

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<sup>13</sup> <http://www.milkeninstitute.org/tech/>

<sup>14</sup> <http://www.morganquitno.com/edrank06.htm>

<sup>15</sup> <http://measuringup2008.highereducation.org/index.php>

<sup>16</sup> [http://special.pacificresearch.org/pub/sab/entrep/2008/Economic\\_Freedom/](http://special.pacificresearch.org/pub/sab/entrep/2008/Economic_Freedom/)

35 unique indexes using different weighting techniques. Each index is then compared to the others in terms of its ability to explain, other things equal, human migration across the 50 U.S. states; and the index with the greatest statistical link to migration was chosen as the best and was used to rank the U.S. states in terms of economic freedom. Due to the method of standardizing the variables using complex statistical techniques, the size of the difference in performance between states is neglected.

### **PEW Center of the States – Grading the States 2008<sup>17</sup>**

The report is developed in partnership with Governing Magazine, is an assessment of the quality of management in the 50 states. The report's findings are generated from extensive interviews and surveys of state-level managers and opinion leaders. The results reported in Grading the States 2008 reflect the performance of each state as a whole—including the intersection between the executive and legislative branches—not any individual or specific department. The cumulative assessments reflect the leadership and program implementation skills of elected and appointed officials as well as career civil servants and the not-for-profit and private sector providers who partner with states in the execution of policy and programs. The report examines and measures four key areas- money, people, infrastructure and information. States are evaluated against a criteria/best practice not against each other! In each management area, the researchers identified the characteristics of effectively managed governments. These criteria, defined by the best research in the field, established the grading standards.

### **PEW Center of the States – Beyond California: States in Fiscal Peril 2009<sup>18</sup>**

The Pew Center on the States compiled its list on fiscal distress by scoring all 50 states according to six factors that contributed substantially to California's ongoing fiscal woes: (1) high foreclosure rates; (2) increasing joblessness; (3) loss of state revenues; (4) the relative size of budget gaps; (5) legal obstacles to balanced budgets—specifically, a supermajority requirement for some or all tax increases or budget bills; and (6) poor money-management practices. Pew's list is based on the best available data as of July 31, 2009. The report weighted each indicator equally and split the data into quintiles—assessing which states emerged as the worst in each category. Pew's researchers then “scored” the states. If a state was in the worst quintile for a given indicator, it was assigned five points; if a state was in the second-worst quintile for any given indicator, it was given four points, and so forth. There was one exception to the rule: the supermajority requirement to raise some or all revenues, pass budget bills or both. If a state had this requirement in place, it was assigned five points; if not, it was given no points. The report then totaled the scores for each indicator to arrive at a final score. The highest and worst score a state could receive was a 30.

### **Small Business and Entrepreneurship Council - Small Business Survival Index 2009<sup>19</sup>**

The annual “Small Business Survival Index” ties together 34 major government-imposed or government-related costs impacting small businesses and entrepreneurs across a broad spectrum of industries and types of businesses with a focus on taxes and regulations. It concentrates exclusively on government imposed costs without balancing it against other government initiatives in e.g. small business financing or technology transfer or other drivers of small business growth and innovation. The raw scores for all indicators are added up without rescaling or weighting, then ranked.

### **Tax Foundation State Business Tax Climate Index<sup>20</sup>**

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<sup>17</sup> [http://www.pewcenteronthestates.org/gpp\\_report\\_card.aspx](http://www.pewcenteronthestates.org/gpp_report_card.aspx)

<sup>18</sup> [http://www.pewcenteronthestates.org/report\\_detail.aspx?id=56044](http://www.pewcenteronthestates.org/report_detail.aspx?id=56044)

<sup>19</sup> [www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf](http://www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf)

<sup>20</sup> <http://www.taxfoundation.org/taxdata/topic/90.html>



The Index is an indicator of which states' tax systems are the most hospitable to business and economic growth. The SBTCI does not attempt to measure economic opportunity or freedom, or even the broad business climate, but the narrower business tax climate. However, the SBTCI does not measure business tax burdens but rather the tax system. Good state tax systems levy low, flat rates on the broadest bases possible, and they treat all taxpayers the same. The SBTCI rewards those states that apply these principles in five areas of taxation: major business taxes, individual income taxes, sales taxes, unemployment insurance taxes and property taxes. Overall, there are 10 sub-indexes and 112 variables. The relative scoring scale is from 0 to 10 with zero being the worst among the 50 states. A state that does not have a certain tax receives a score of 10. Scores on the five major component indexes are "normalized," which brings the average score for all of them to 5.0. This is accomplished by multiplying every state's score by a constant value. The index is weighted by the variability of the component indexes, instead of weighting them equally and merely summing them. The standard deviation of each component index is calculated and a weight for each component index is created from that measure. The result is a heavier weighting of those component indexes with greater variability. The index covers only state taxes, therefore tending to give poor ratings to states where the state government collects most of the taxes and provides most of the services, and good ratings to states where the local governments carry more of these responsibilities.

#### **TechAmerica - Cyberstates 2009<sup>21</sup>**

Prepared by the industry advocate association TechAmerica, the report provides current as well as historical detailed national and state data on latest available state data on high-tech (primarily information technology-related sectors): employment, wages, establishments, payroll, and research and development expenditures. Some measures are in absolute terms (total number of high-tech jobs), some are scaled by the size of the state. The state figures are then simply ranked among the 50 states. No aggregate score is provided.

#### **U.S. Chamber of Commerce - Leaders and Laggards<sup>22</sup>**

The report evaluates a state K-21 education system performance and shows an emphasis on coupling a focus on academic outcomes with attention to efficiency-oriented measures on education policy and standards (e.g. education data quality). There is no composite grade or rank; individual grades for each of the nine sub-groups are distributed based on a broad curve. For the purposes of comparisons in this report, only the grading on postsecondary and workforce readiness (on-time high school completion and college going rates) is included.

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<sup>21</sup> <http://www.techamerica.org/Publications/cyberstates.cfm>

<sup>22</sup> <http://www.uschamber.com/icw/reportcard/default>

## PROJECT TEAM

### THE COUNCIL OF STATE GOVERNMENTS' MIDWESTERN LEGISLATIVE CONFERENCE

**The Council of State Governments (CSG)** has served state government officials from all 50 states and the territories since 1933. As the only nonpartisan, nonprofit association representing all three branches of state government, CSG is committed to helping implement the best policy solutions and ideas. The Council advocates multi-state problem solving, highlights policy trends and innovations in state government, provides leadership training and support, and champions state sovereignty. CSG is supported by the states and governed by their officials. CSG has a national office located in Lexington, Kentucky, and regional offices in Atlanta, Lombard (Illinois), New York City, and Sacramento. The regional structure of CSG allows the organization to tailor services to the special concerns of policymakers. The mission of the Midwestern Office is to focus on those issues of greatest interest to policymakers in our nation's heartland – providing state leaders with the resources and tools they need to effectively address today's public policy challenges. To that end, CSG Midwest supports the efforts of state legislators and their staff through the Midwestern Legislative Conference and of the region's governors and their staff through the Midwestern Governors Association.

Established in 1945, **CSG's Midwestern Legislative Conference (MLC)** promotes regional, interstate cooperation and facilitates the exchange of information and ideas between the legislatures of 11 Midwestern states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. The Canadian provinces of Manitoba, Ontario and Saskatchewan are affiliate members of the MLC. Through its meetings, publications and policy work, the MLC provides lawmakers and their staff throughout the region with a variety of opportunities to learn from each other by sharing best practices and innovative solutions to common problems. Over the years, the MLC has addressed numerous issues ranging from agriculture, fiscal affairs, and economic development to health care, education and the environment. The MLC has also played a key role in launching several regional cooperative efforts, including the Midwestern Higher Education Compact and the Midwestern Interstate Passenger Rail Compact.

### GROWTHECONOMICS INC.

Graham S. Toft Ph.D. is founder and president of **GrowthEconomics**, of Sarasota, Florida, and Indianapolis Indiana, focused on the growth dynamics of states and regions. The firm seeks to understand how good pay jobs grow, growth companies multiply, and self-reliant families prosper in today's super-charged, disruptive economy. He likes to call this fast-paced, open, green-conscious, global economy, the 'flex-economy'. He spends much of his time with leaders striving to grow their economies through entrepreneurship, innovation development, and pro-growth strategies -- solutions sought by many localities, regions, states, nations, educational institutions, business civic organizations and industries in today's post recessionary uptake. GrowthEconomics has a bias toward the measurement and monitoring of competitive position as a means to grab attention and focus on actionable strategies. To that end, Graham prepares annual state Competitiveness ScoreCards for several state Chambers of Commerce. In these circles, he has become known as 'Dr. Benchmark'. Also, annually GrowthEconomics prepares the state Entrepreneurship Score Card in collaboration with the Small Business Foundation of Michigan. Other specialty benchmarking reports include a Technology Index on Indiana and Kansas. The GrowthEconomics team works out of Florida, Indiana and Ireland.



Graham Toft brings over 20 years experience preparing state benchmark and competitiveness assessments. He has strong Midwest ties and familiarity, including service as President of the Indiana Economic Development Council for 13 years from 1989 to 2002. Along with team member, Dr. Nadine Jeserich, resident in Ireland, he draws on state-of-the-art methods from both the U.S. and Europe.

GrowthEconomics has taken care to build a comprehensive set of over 200 metrics measuring all 50 U.S. states over the past seven years. These data are routinely updated and revised when back data become available. This 'live' dataset now makes it possible for the GrowthEconomics team to undertake sophisticated statistical analyses to determine 'Key Indicators to Watch' and 'Super – Drivers' which prove to be highly correlated with state economic growth. GrowthEconomics is now in the process of developing causal models for use in growth planning and policy development. Empirical work of this type will transform the practice of economic development over the next 10 years, offering decision-makers and practitioners greater confidence that the actions they take will have higher probabilities of success.

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