

AN ANALYSIS OF KEY STATE POLICY MEASURE CHANGES THAT RESULT IN SIGNIFICANT INCREASES AND DECREASES IN STATE BUSINESS POLICY INDEX RANKINGS

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ABSTRACT

This study analyzes policy change causes of significant increases and significant decreases in rankings of states on the Small Business Survival Index (SBSI) from 2003 to 2014. Seven states were identified as having significant gains (double digit gain) in ranking and eight states were identified as having significant decreases (double digit drop) in ranking. The study focuses upon which of the original 21 measures in the 2003 SBSI were changed by 2014 by the gainer states and which measures in the 2003 SBSI were changed by 2014 by the decliner states. A major policy implication of this study is to propose to state legislative and executive branch leaders whether there is a common thread by the gainer states in their approach taken to improve state ranking or if various paths were taken indicating that states have flexibility in developing their own state unique path to improved ranking.

INTRODUCTION

Given the economic climate faced domestically in the United States since 2008 combined with on-going budgetary constraints at the Federal and most State levels of government, there is a desire by state politicians to increase state economic and business growth. Business growth at the state level is good for increasing state employment, increasing state household/business income, increasing state level household consumption, and in raising state tax revenue. Given the fact that small businesses are the main driver of business growth in state economies, focus should be placed upon the policy environment of a state to encourage state level growth in entrepreneurial activities aimed at small business creation and small business survival.

During state elections, state politicians often claim that they are in favor of change, reform, and in helping to stimulate business and entrepreneurship growth once elected. If such political efforts were effective at the state level, one would expect that a state should improve in its ranking on rankings that examine state level small business survival levels over various extended periods of time.

“The Small Business and Entrepreneurship Council (SBE Council) is a 501c(4) advocacy, research, training and networking organization dedicated to protecting small business and promoting entrepreneurship. The SBE Council works to educate elected officials, policymakers, business leaders and the public about key policies that enable business start-up and growth. Through advocacy, research, media outreach, training and education, SBE Council members and staff convey the importance of entrepreneurship to job creation, innovation, economic growth and U.S. competitiveness. The SBE Council is viewed as one of the most powerful and effective organizations dedicated to protecting small business, and promoting entrepreneurship [1].”

Since 1995, the SBE Council has annually prepared a “Small Business Survival Index” (renamed “Business Policy Index” in 2014) in which the report ranks the 50 states according to some of the major government-imposed or government-related costs affecting investment, entrepreneurship and business. The Small Business Survival Index (“SBSI”) ranks the states according to their policy climates for entrepreneurship. The Small Business & Entrepreneurship Council’s “Business Policy Index 2014” (previously called SBSI) ranks the states from best to worst in terms of the costs of their tax systems on entrepreneurship and small business. The 2014 edition of the Index pulls together different tax measures, and combines those into one tax score that allows the 50 states to be compared and ranked [2].

In 2003, the baseline year for this study, there were 21 measures of the SBSI: 1) state’s top personal income tax rate, 2) state’s top individual capital gains tax rate, 3) state’s top tax rate on dividends and interest, 4) state’s top corporate income tax rate, 5) state’s top corporate capital gains tax rate, 6) any added income tax on S-Corporations, 7) whether or not the state imposes an alternative minimum tax on individuals, 8) whether or not the state imposes an alternative minimum tax on corporations, 9) whether or not the state’s personal income tax brackets are indexed for inflation, 10) the progressivity of the state’s personal income tax brackets, 11) the progressivity of the state’s corporate income tax brackets, 12) property taxes, 13) consumption-based taxes (i.e., sales, gross receipts and excise taxes), 14) whether or not the state imposes a death tax, 15) unemployment taxes, 16) whether or not the state has a tax limitation mechanism, 17) whether or not the state imposes an Internet access tax, 18) “Amazon” taxes, 19) gas tax, 20) diesel tax, and 21) wireless taxes [3].

This study presents the results from an analysis of policy change causes of significant increases and significant decreases in rankings of states on the Small Business Survival Index from 2003 to 2014. A table was prepared identifying in rank order the 50 states as to overall change in ranking from 2003 and 2014. Seven states were identified as having significant gains (double digit gain) in ranking and eight states were identified as having significant decreases (double digit decline) in ranking. The seven gainer states and their ranking gain include: Ohio (+28), North Dakota (+23), New Mexico (+17), North Carolina (+16), Utah (+13), West Virginia (+12), and Kansas (+10). The eight decliner states and their ranking decline include: New Hampshire (-23), Illinois (-22), Tennessee (-18), Maryland (-14), New Jersey (-13), Pennsylvania (-12), Delaware (-12), and Arkansas (-12).

The study focuses upon which of the original 21 measures in the 2003 SBSI were changed by 2014 by the gainer states and which measures in the 2003 SBSI were changed by 2014 by the decliner states. A major policy implication of this study is to propose to state legislative and executive branch leaders whether there is a common thread by the gainer states in their approach taken to improve state ranking or if various paths were taken indicating that states have flexibility in developing their own unique path to improved ranking.

REFERENCES

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