APPENDIX B-8: COST OF MARKET ENTRY

In this section, we will take a closer look at the costs and challenges to doing business in our survey states. Costs of doing business can be categorized in a few different ways: taxes, labor costs, utilities, and incidence of union membership. The states with better business climates often had low corporate taxes, low incidence of unions, and reasonable utility costs for businesses. Conversely, states with higher union membership, higher energy costs, and tax structures not conducive to businesses had higher operating costs for firms in their states.

Legislatures, of course, have the power to influence their state's business climate. Legislatures that prioritize economic growth and attracting companies to their states often receive higher bond ratings from agencies such as Standard & Poor's. Some of the turnaround states discussed elsewhere in this report have achieved such status in large part due to their newfound dedication to supporting business interests in their state via business-friendly policy.

New Jersey has many facets that work towards its favor that have been illuminated earlier in this report, but one of the challenges facing the state is the high cost of doing business there. It ranks in the bottom 20% of states when it comes to utility costs, personal and corporate income taxes, corporate capital gains taxes, and state and local property taxes.[1] While New Jersey has a diversified, educated workforce, the minimum wage is second only to New York state in the Northeast and in the top five highest nationwide.[2] Businesses in New Jersey also pay higher costs due to the high rate of union membership.[3]

Labor costs: States with current job growth tend to also have lower labor costs, be it wage levels, or costs of health care or worker's compensation insurance. Utah, a state with recent, consistent job growth, also has the lowest minimum wage in the country. States grappling with above-average growth in health care costs, such as Pennsylvania, may look less attractive to firms than states with better than average costs associated with employee benefits.[4] Other factors, such as the cost of unemployment and other types of insurance affect the attractiveness of states to potential investors. Challenged states in these areas include New York, with relatively high worker's compensation, health and unemployment insurance may preclude firms from settling in that and similar states. Turnaround states may have above average costs in one area but not in others, which could factor into firms' site selection decisions. Washington, for example, has workers compensation costs that fall well below average, while concurrently maintaining high unemployment insurance costs.

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[1] Keating, Raymond. "Small Business Survival Index 2007" Small Business and Entrepreneurship Council. http://www.sbecouncil.org

[2] Tureck, David; Sirin, Cagdas; Solyemez, Arif Orcun. State Competitiveness Report 2006. Boston: Beacon Hill Institute for Public Policy Research at Suffolk University, 2006. 49. http://www.beaconhill.org/Compete06/06StateCompeteFinal.pdf.

[3] Tureck, 51.

[4] The Pennsylvania Chamber of Business and Industry.

Union incidence also raises employers' costs. In addition to New Jersey, other states with high union membership, include Michigan, Wisconsin, Maryland, New York, and West Virginia – not coincidentally, all states that still have sizable industrial and/or manufacturing bases. States that are successfully luring firms to their states have clued into the new knowledge-based economy, where union membership is much less common.

Taxes: Up-and-coming states often have taxes that are favorable to businesses. Virginia, for example, has not raised its corporate sales tax since 1972. Additionally, the commonwealth also boasts corporate sales and income taxes below the national average, and has no franchise or net worth tax.[5] States with overall favorable corporate tax schemes include Georgia; Florida, which has limited corporate taxes and no personal income tax; Washington, and Tennessee, which has no property tax[6]. States known for costly, convoluted or business-adverse tax structures include Michigan[7], Maryland[8], New York,[9] West Virginia[10], Wisconsin,[11] and Connecticut[12]. For example, in Connecticut, business leaders surveyed cited the state as a place where they feel their business does not get a good value for the taxes they pay.

States that business leaders gravitate towards share some common characteristics regarding tax policy. In addition to favorable tax rates, they also usually have numerous incentive and credit programs that reward companies for doing business in their state.

Utilities: With rising energy costs, states with lower prices on gas, electricity and other utilities have an advantage over other states when taking the other factors discussed into account. While legislatures cannot necessarily control energy costs, they can assist by fostering innovation in alternative energy and/or offer incentives. Incentives to firms who have shown innovation in alternative energy or lowered their energy usage are a way of encouraging energy innovation.

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[5] Virginia Economic Development Partnership: www.yesvirginia.org; Research Institute of America. State and Local Taxes: All States Tax Guide, , 20. Mar. 2007 and 15.May.2007.

[6] "Business Development: Tennessee's Competitive Incentives." Tennessee Department of Economic & Community Development. The Official Web Site of the State of Tennessee. http://tnecd.gov/bizdev_advantages.htm

[7] Atkins, Chris; Dubay, Curtis S. Background Paper: 2008 State Business Tax Climate Index. Oct 2007, Number 52. The Tax Foundation. 4. http://www.taxfoundation.org/files/bp52.pdf

[8] Tureck, 2.

[9] "2007 Cost of Doing Business Index." Milken Institute. December, 2006. http://www.milkeninstitute.org/pdf/2007CostofDoingBusiness.pdf

[10] Keating, 29,31.

[11] Keating, 30,32.

[12] Milken.