LEGISLATIVE PRINCIPLES SERIES

NUMBER 8

One in a series of brief guides to the most important public policy issues of the day, written especially for elected officials and other opinion leaders.

Ten Principles *for* Improved Business Climates

By Joseph L. Bast

The Heartland INSTITUTE

Series Preface

Welcome to the latest installment in The Heartland Institute's *Legislative Principles* series. Each booklet in this series presents a set of principles central to the debate about a major public policy issue. Each principle, in turn, is carefully documented to enable readers to find the original sources, many of which are on The Heartland Institute's Web site (www.heartland.org). An electronic version of this booklet, also posted on Heartland's Web site, has links to the URLs of many of the sources cited.

By design, most of The Heartland Institute's publications focus on news and contain factual accounts about current events, policies, and legislation. The booklets in the *Legislative Principles* series, on the other hand, set forth enduring principles that are likely to remain valid and relevant to legislative policy in the next decade. They can help busy legislators rapidly prepare themselves to discuss and even propose new legislation in areas they may not ordinarily follow closely.

This particular booklet was written Joseph Bast on my request to fill what I thought was a gap in the range of issues covered by the first seven installments in the series. Business climates – the term refers to a panoply of policies that make a city or state more or less attractive to businesses – are in the news again as states compete for jobs and economic activity during what some are calling the Great Recession. It is more important than ever to keep in mind such principles as keeping taxes low, avoiding corporate welfare, and reducing regulatory burdens on businesses and entrepreneurs.

We hope the *Legislative Principles* series forms a mini-library for elected officials, their staff, and concerned citizens. Kept on a desk or in a drawer, the booklets can form a ready reference on major legislative issues and policies. We also hope you will distribute copies to friends and colleagues who share your interest.

Herbert J. Walberg
Series Editor and
Chairman, The Heartland Institute

Ordering Information

Additional copies of this booklet
are available from The Heartland Institute
for the following prices:

1-50 copies	$3.95 each
51 - 200 copies	$3.21 each
201 - 1,000	$2.66 each
> 1,000 copies	call for pricing

Send check or money order to:
The Heartland Institute
19 South LaSalle Street #903
Chicago, Illinois 60603

or order online at www.heartland.org.

About the author

Joseph L. Bast is president of The Heartland Institute and coauthor or editor of thirteen books, including *Rebuilding America's Schools* (1990), *Why We Spend Too Much on Health Care* (1992), *Eco-Sanity: A Common-Sense Guide to Environmentalism* (1994) and *Education & Capitalism* (2003). His writing has appeared in *Phi Delta Kappan, Economics of Education Review, Wall Street Journal*, *Investor's Business Daily*, *The Cato Journal, USA Today*, and many of the country's largest-circulation newspapers. He is publisher of five monthly newspapers with a combined monthly circulation of more than 200,000 copies. Those publications are titled *School Reform News*, *Environment & Climate News*, *Health Care News, Budget & Tax News,* and *InfoTech & Telecom News*.

Table of Contents

About The Heartland Institute

The Heartland Institute is a national nonprofit research and education organization. Founded in Chicago, Illinois in 1984, Heartland's mission is to discover, develop, and promote free-market solutions to social and economic problems. Its activities are tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Why do we need 10 principles for improved business climates?

The "business climate" of a nation, state, or city refers to the combined effect on businesses of public policies, natural endowments, and other assets that affect business start-ups and profitability. A good business climate encourages existing businesses to grow, people to start new businesses, and national and international businesses to invest in an area. A poor business climate does the opposite.

Maintaining a good business climate has never been more important. Thanks to the Internet, the collapse of communism around the world, and advances in shipping and logistics, capital and labor are much more mobile than in the past. Businesses must bid for customers and workers not only from local competitors but from businesses in other communities, in other states, and even in other countries. Small changes in taxes, regulations, and other cost-drivers can lead to businesses losing customers and possibly failing or relocating.

There is no single list of factors or recipe for a good business climate. At least four business magazines – *Forbes*, *Site Selection*, *CEO Magazine*, and *Directorship Magazine* – regularly rank the states using a mix of publicly available data and the judgement of their reporters. *Forbes,* for example, describes its methodology as follows:

> First, we look at projections of job, income and gross state product growth. We also examine venture capital money going into an area as well as new businesses that have cropped up in the past three years. Another addition is the role that government plays on the business climate in terms of environmental and labor laws, as well as taxes and incentives. These factors play out on the state level instead of on the local level. Overall, we examine 32 criteria to assemble the list (Badenhausen 2007).

Forbes bundles those 32 criteria into six categories: business costs, labor, regulatory environment, economic climate, growth prospects, and quality of life.

Independent think tanks also produce business climate rankings that have the virtue of being more objective and data-driven, although no two indices present the same combination of factors or sources of data or give each variable the same weight. They include the American Legislative Exchange Council (ALEC), Beacon Hill Institute, Cato Institute, Council on State Taxation (COST), Heritage Foundation, Small Business & Entrepreneurship Council (SBEC), and Tax Foundation. The latest rankings are available on the Web sites of these organizations.

The SBEC combines 16 rankings of tax rates into a Business Tax Index (Keating 2010). The 16 taxes are listed in the box below.

Small Business & Entrepreneurship Council
Business Climate Index

1. Top personal income tax rate
2. Top individual capital gains tax rate
3. Top corporate income tax rate
4. Top corporate capital gains tax rate
5. Any added income tax on S-Corporations
6. Whether or not the state imposes an alternative minimum tax on individuals
7. Whether or not the state imposes an alternative minimum tax on corporations
8. Whether or not the state's personal income tax brackets are indexed for inflation
9. Property tax rates
10. Consumption-based tax rates (i.e., sales, gross receipts, and excise taxes)
11. Whether or not the state imposes a death tax
12. Unemployment tax rates
13. Whether or not the state has a tax limitation mechanism
14. Whether or not the state imposes an Internet access tax
15. Gas tax rate
16. Diesel tax rate

These examples of business climate indices suggest some agreement on the factors most likely to affect a state or nation's competitiveness. The ten principles of a good business climate that follow draw from these and other sources.

Recommended reading: Raymond Keating, "Business Tax Index 2010: Best to Worst State Tax Systems for Entrepreneurship and Small Business," Small Business & Entrepreneurship Council, 2010, www.sbecouncil.org/uploads/BTI2010_2.pdf; Kail Padgitt, "2010 State Business Tax Climate Index (Seventh Edition)," Tax Foundation, *Background Paper* No. 59, September 22, 2009, www.taxfoundation. org/research/show/22658.html.

1. Keep total tax burden low.

Researchers agree that keeping total tax burden low is more important than any single tax rate.

Politicians sometimes propose to raise taxes on some goods and services while lowering taxes on other goods and services, with the goal of a more "fair" or "efficient" tax code. Often, these "tax swaps" result in a net increase in tax revenues. While there may be some benefit to lowering an individual tax rate that is high compared to those in neighboring and competing states, it is a mistake to lose sight of total tax burden and the simple truth that *what* is taxed or *how* it is taxed is less important than *total tax burden.*

A dollar in tax revenue is a dollar less that consumers can spend on goods and services and that business owners can invest in hiring employees to make and sell those products. It doesn't matter if the tax is imposed on cigarettes or property, Internet purchases, or income. What matters is the total tax burden. Keeping the total burden low is the first principle of a good business climate.

Most analyses published during the late 1970s and early 1980s found state taxes had little impact on economic growth because tax differences among the states were dwarfed by differences in transportation, labor, and energy costs. More recent research, however, has changed the consensus. Zsolt Becsi, an economist with the Atlanta Federal Reserve Bank, wrote in 1996, "[U]nder certain conditions, taxes may have permanent effects on growth, and convergence is not automatic. Because policies can affect long-term growth, economists are again taking this research seriously" (Becsi 1996).

In 1994, Timothy Bartik, a senior economist with the Upjohn Institute, conducted a literature review and estimated that for every 1 percent decrease in taxes, there is a 0.3 percent increase in economic activity. Tax increases, he found, produce a similar opposite effect (Bartik 1994).

Economist Richard Vedder, a distinguished professor of economics at Ohio University, examined several dozen measures of taxes and spending in the years 1957, 1977, and 1997. In 2001 he reported, "In every single case, without exception, the results are consistent: High or rising taxes are associated with lower amounts of economic growth. The use of more sophisticated statistical models produces the same sort of result: higher taxes, lower growth" (Vedder 2001, 9).

In 2006, economist J. Scott Moody at the Maine Heritage Policy Center, a nonpartisan research institute, reported the impact of total tax burden on population growth, personal income growth, and employment growth for all 50 states from 1994 to 2004 (Moody 2006). Low-tax states had population growth rates nearly three times greater than high-tax states (17.5 percent versus 6.4 percent), personal income growth 32 percent greater (75.6 percent versus 57.3 percent), and employment growth 78 percent greater (23.3 percent versus 13.0 percent).

A similar report released in 2006 by the Tax Foundation looked at differences in economic growth rates between 2000 and 2005 for the ten best and ten worst states as ranked by the foundation's Business Tax Climate Index, which is a sum of scores for taxes on corporate and individual income, sales, and property, and unemployment insurance premiums. It found the ten states with the lowest taxes experienced personal income growth that was 44 percent faster than in the ten states with the highest taxes from 2000 to 2005. Employment in the low-tax states grew twice as fast, economic output 52 percent faster, and population 164 percent faster (Stanek 2006).

"Taxes are an important cost to business, as important as the cost of labor and raw materials," says Tax Foundation President Scott A. Hodge. "Nearly all of the best states raise sufficient revenue without imposing at least one of the three major state taxes: sales taxes, personal income taxes, and corporate income taxes" (quoted in Stanek 2006).

Recommended reading: J. Scott Moody, "Higher Taxes Lower Economic Performance," *Maine Issue Brief,* Maine Heritage Policy Center, September 19, 2006; Steve Stanek, "Lowest Business Tax States Have Best Economies: Study," *Budget & Tax News*, December 2006; Richard Vedder, "Taxes and Economic Growth," Taxpayers Network Inc., September 2001, p. 9.

2. Keep taxes on businesses low.

Keep taxes paid directly by businesses simple and low to encourage entrepreneurship and investment.

Second in importance only to keeping overall tax burdens low is keeping the tax burden on corporations low. Few people understand how many taxes businesses have to pay and how those taxes affect their decisions, or how taxes impose costly accounting and reporting burdens. With a top federal rate of 35 percent, American companies pay one of the highest corporate tax rates of any of the industrialized countries (Chen and Mintz 2010). State taxes add to this burden, making it even more difficult to compete with competitors in India, China, and other economic powerhouses.

The Small Business & Entrepreneurship Council identifies the following taxes borne by businesses as especially harmful to a state's business climate. The following quotations are from the SBEC's 2010 Business Tax Index, written by Raymond Keating, and used with permission:

Capital Gains Taxes – "One of the biggest obstacles that start-ups or expanding businesses face is access to capital. State capital gains taxes, therefore, affect the economy by directly impacting the rate of return on investment and entrepreneurship. Indeed, capital gains taxes are direct levies on risk taking, or the sources of growth in the economy. High capital gains taxes restrict access to capital, and help to restrain or redirect risk taking."

Personal Income Tax – "State personal income tax rates affect individual economic decisionmaking in important ways. A high personal income tax rate raises the costs of working, saving, investing, and risk taking. ... [M]ore than 90 percent of businesses file taxes as individuals (e.g., sole proprietorship, partnerships and S-Corps.), and therefore pay personal income taxes rather than corporate income taxes."

Income Tax on S-Corporations – "Subchapter S-Corporations let certain businesses adopt the benefits of a corporation, while allowing income to pass through to be taxed at the individual level. Most states recognize S-Corporations, but a few either tax such businesses like other corporations or impose some kind of added tax."

Individual Alternative Minimum Tax – "The individual alternative minimum tax (AMT) imposes a minimum tax rate that must be paid by individuals, regardless the tax credits or deductions taken. The AMT diminishes the effectiveness of potentially positive, pro-growth tax relief measures, while also raising the costs of tax compliance."

Corporate Alternative Minimum Tax – "The corporate alternative minimum tax (AMT) imposes a minimum tax rate that must be paid by corporations, regardless of the available tax credits or deductions taken. Again, the AMT diminishes the effectiveness of potentially positive, pro-growth tax relief measures, and hikes compliance costs, in particular by forcing firms to effectively calculate their taxes under two tax codes."

Unemployment Tax Rates – "The unemployment tax on wages is another burden on entrepreneurs and business. High state unemployment tax rates increase the relative cost of labor versus capital, and provide incentives for labor-intensive businesses to flee from high-tax states to low-tax states."

Death Taxes – "High state death taxes offer incentives to move investment and business ventures to less taxing climates; foster wasteful expenditures on tax avoidance, estate planning and insurance; and force many businesses to be sold, borrowed against or closed down."

Internet Taxes – "The Internet serves as a tremendous boost to economic growth and a great expansion of economic opportunity. For small businesses, the Internet allows for greater access to information and markets. Indeed, the Internet gives smaller enterprises access to global markets that they might not have had in the past. Unfortunately, some states have chosen to impose sales taxes on Internet access."

Concerning the final tax in the SBEC's list, extending state sales taxes to purchases made over the Internet is viewed by many politicians as a way to increase revenues and "level the playing field" between retailers with bricks-and-mortar stores on Main Street and big and distant corporations. But this rhetoric overlooks a number of important facts.

The Constitution correctly limits the states to taxing only businesses with a physical presence in their jurisdictions, giving taxpayers the right to vote on whether or not they should be taxed. Online retailers use fewer public services that state and local taxes pay for, and so can be properly relieved of their burden. Millions of small businesses on Main Street are using the Internet to find customers and expand their sales, blurring any distinction that could be made between bricks-and-mortar and online retailers. State taxes on Internet sales add to the total tax burden and would make it less attractive for businesses and consumers to move to or stay in the state.

Once again it is important to keep *total tax burden* in mind as the most important element of a business climate. Raising taxes is almost never the way to *lower* total tax burden.

Recommended reading: Raymond Keating, "Business Tax Index 2010: Best to Worst State Tax Systems for Entrepreneurship and Small Business," Small Business & Entrepreneurship Council, 2010, www.sbecouncil.org/uploads/BTI2010_2.pdf; Adam D. Thierer and Veronique de Rugy, "The Internet Tax Solution: Tax Competition, Not Tax Collusion," *Policy Analysis* No. 494, Cato Institute, October 23, 2003.

3. Avoid corporate welfare.

A poor business climate cannot be improved by offering subsidies or tax abatements to politically favored businesses.

Can the destructive effects of high tax rates be offset by selectively lowering taxes on some businesses or offering them subsidies to stay in the state? Many politicians think they can, but research on the actual results of business tax incentive programs finds they do not create jobs or promote economic growth.

A 1999 review of state economic performance found "the states that spent the most on economic development programs were more likely to experience slow job and/or income growth than states with the lowest economic development expenditures" (Gulibon 1999, 9). A 2001 review of more than 300 scholarly papers on economic development programs found, "studies of specific taxes are split over whether incentives are effective, although most report negative results" (Buss 2001, 99).

An examination of the effect of state economic development incentives on 366 Ohio businesses that began large expansions between 1993 and 1995, published in 2002, found the incentives had little or no impact on expected employment growth, and the possible small impact was negative (Gabe and Kraybill 2002). A 2004 survey article by University of Iowa economists Peter Fisher and Alan Peters concluded:

> The upshot of all of this is that on this most basic question of all – whether incentives induce significant new investment or jobs – we simply do not know the answer. Since these programs probably cost state and local governments about $40-$50 billion a year, one would expect some clear and undisputed evidence of their success. This is not the case. In fact, there are very good reasons – theoretical, empirical, and practical – to believe that economic development incentives have little or no impact on firm location and investment decisions (Peters and Fisher 2004).

Separate from the question of whether tax incentives and subsidies have a positive impact on state and local economies is whether they are cost-effective; that is, if they are worthwhile. Even if robust evidence of a positive effect of targeted fiscal incentives were to be found, it would not tell us if the tax dollars given away would have produced better returns if put toward new roads, schools, crime prevention ... or left in the pockets of taxpayers.

If the only problem with selective tax abatement programs were that they frequently do not produce positive results, their use could nonetheless be tolerable, perhaps as evidence of good-faith efforts by politicians to "do something" about an economic crisis. But selective tax abatements actually harm a state's economy (Beck 1987). Private firms are encouraged to allocate their resources to lobbying efforts rather than to market analysis or productive efforts. Location decisions are distorted because private firms are locating on the basis of subsidy rather than markets, meaning inefficient enterprises are subsidized at the expense of efficient ones. Finally, economically valid business investments are discouraged by the higher taxes that must be paid to subsidize the politically selected investments, resulting in a negative final impact on economic growth.

As the John Locke Foundation notes,

> Unlike the maintenance of low across-the-board tax rates or the provision of core public services such as education, highways, and public safety, corporate welfare doesn't benefit everyone. It requires public officials to intervene in

> private markets to decide which businesses or regions are worthy of support. This sets the stage for increased special-interest lobbying, strings-attached campaign contributions, and unethical behavior in public office (John Locke Foundation 2006, 30).

For all these reasons, state policymakers would be well advised to avoid economic development programs that award tax abatements to selected firms.

Recommended reading: John Locke Foundation, 2004, *Agenda 2004,* www.johnlocke.org/agenda2004/economicdev.html; Grant Gulibon, "Growing Pennsylvania's Economy: Tax Cuts vs. Economic Development Programs," March 1999, The Commonwealth Foundation, www.heartland.org/Article/3071.

4. Remove privileges enjoyed by labor unions.

Free businesses and workers from unwanted unions by removing privileges that labor unions have received.

Unions in 2009 represented 12.3 percent of wage and salaried workers in the U.S., down from 20.1 percent in 1983 (BLS 2010). Nevertheless, through their power to strike and disrupt a business's activities, unions continue to raise wages in some industries above levels that would otherwise prevail. In an age where labor and capital are highly mobile, raising wages significantly above levels justified by workers' productivity can damage both the business and its workers.

Wise union leaders make sure their demands do not outpace increases in worker productivity. But union leaders who are more concerned with gaining immediate benefits for workers irrespective of their productivity force businesses to do one of three things: substitute machines and technology for some workers and thereby raise worker productivity to justify higher compensation for the remaining workers; relocate operations to places (including foreign countries) where worker compensation is in line with worker productivity; or close down operations and cease to exist.

Many states intentionally or unintentionally extend privileges to unions that make it easier for them to organize, threaten to strike, or steer government contracts to union shops. Removing those privileges can improve a state's business climate by freeing businesses and workers from unwanted unions and allowing less-expensive nonunion shops to bid on government projects. The following recommendations appear in the *2007 Index of Worker Freedom: A National Report Card*, by Brian M. Johnson, published by the Alliance for Worker Freedom in 2007 (Johnson 2007).

Right to Work Laws

Right to Work laws are statutes prohibiting companies from making membership in unions and payment of union dues a condition of employment either before or after an employee is hired. Prior to the passage of the Taft-Hartley Act in 1947, unions and employers could lawfully agree to what is known as a "closed shop," where workers were forced to join a union as a condition of employment. Right to Work laws forbid this practice.

The impact of Right to Work laws on economic growth has been extensively studied. Though the conclusions remain controversial, there is general agreement that Right to Work laws lead to lower union membership levels relative to states without such laws and higher economic growth rates (Moore 1998). Anecdotal evidence in support of this conclusion is easy to come by: The National Institute for Labor Relations Research reported in April 2008 that private-sector jobs in Right to Work states increased by a net 17.7 percent between 1997 and 2002, more than twice the rate of increase in states without Right to Work laws (NILRR 2008). In sum, just as in the case of selective treatment of businesses, laws giving advantages to labor unions impair the general prosperity of states and the nation as a whole.

Paycheck Protection

"Paycheck protection" refers to laws prohibiting public employee labor organizations from using public employee dues or fees for expenditures unrelated to collective bargaining – such as electioneering, lobbying, and public relations – without each member's consent. The laws put the burden on unions to secure affirmative written consent to spend dues money on politics or other extraneous purposes, rather than assume permission is granted unless an employee files an objection to such expenditures (NAWER 2008).

Paycheck protection laws advance worker freedom – and therefore make a state a better place to work and start a business – by protecting workers from union intimidation and ensuring that dollars taken from workers in the form of union dues are spent representing workers before management, and not on politics and other activities unrelated to what should be the core purpose of labor unions. Paycheck protection is popular with conservatives and business groups because it limits the funds unions can devote to politics, which go overwhelmingly to some Democratic candidates for office. But it also should be popular with civil libertarians and workers' rights advocates, since the current system is rife with abuse. Seven states have some form of paycheck protection, six by legislation and one by executive order.

Prevailing Wage Laws

The federal Davis-Bacon Act requires contractors and subcontractors working on federal or District of Columbia construction contracts, or federally assisted contracts in excess of $2,000, to pay workers no less than the currently "prevailing wage" paid in the area in which the construction project is carried out. The federal government and many state governments use various voluntary surveys to determine the wage that "prevails" in the field of construction.

Unionized contractors and construction crews have a strong incentive to respond to wage surveys, while nonunion contractors have little reason to do so. As a result, the prevailing wage is most often equal to the union wage, even though only a small share of construction workers are union members. This drives up the cost of public construction projects. The additional cost to public works projects attributable to the prevailing wage has been estimated to be 22 percent of the cost of labor and 9.91 percent of overall construction costs, for an annual cost to taxpayers of $8.6 billion a year (Glassman, Head, Tuerck, and Bachman 2008).

Repeal or reform of prevailing wage laws ought to be strongly supported by liberals, since one of the effects of the laws is to limit competition from small or recently formed businesses willing to under-bid unionized incumbent firms. Since the new competitors are more likely to be minority-owned or to hire nonunion workers, the effect of prevailing wage laws is to freeze minorities out of the construction industry. Indeed, this was the original purpose of the Davis-Bacon Act, a shameful legacy of the Jim Crow era (Frantz 1994).

Thirty-two states have prevailing wage laws that extend the requirement beyond federal construction projects.

Recommended reading: Brian M. Johnson, *2007 Index of Worker Freedom: A National Report Card*, Alliance for Worker Freedom, 2007; John Frantz, "Davis-Bacon: Jim Crow's Last Stand," *The Freeman: Ideas on Liberty*, Vol. 44, No. 2 (February 1994).

5. Lower or eliminate minimum wages.

High minimum wages destroy job opportunities for young people, increase demand for welfare, and place a drag on economic growth.

Minimum wage is the lowest hourly wage employers may legally pay employees. With passage of the Fair Minimum Wage Act of 2007, the federal minimum wage was raised from $5.15 an hour to $7.25 an hour by 2010. Nearly all states have laws setting the minimum wage at least as high as the federal minimum.

Most support for a minimum wage comes from a sense of compassion for the poor and unskilled, a fine sentiment. But supporters fail to understand how markets set wages, who actually works for the minimum wage in today's economy, and how employers react to minimum wages that are higher than the productivity of some workers.

A worker's compensation is largely determined by his or her productivity. A worker who produces significantly more value to a company than he or she is being paid has a strong incentive to work for a company willing to pay more, and other companies will see the opportunity to profit by hiring that worker. The rising level of job mobility in the U.S. economy is evidence that employees and employers are very aware of the wages being paid by competitors, and both parties are willing to negotiate. Most wages are higher than the minimum wage, not because a government law requires them to be, but because businesses compete vigorously for workers.

The typical person who earns the minimum wage is a teenager or someone just entering the workforce for other reasons, such as previous drug use or imprisonment. According to economist Walter Williams, "Workers earning the minimum wage or less tend to be young, single workers between the ages of 16 and 25. Only about 2 percent of workers over 25 years of age earn minimum wages" (Williams 2006). Most people who earn the minimum wage are members of households where others make substantially higher wages. According to Williams, "only 5.3 percent of minimum wage earners are from households below the official poverty line; 40 percent of minimum wage earners live in households with incomes $60,000 and higher; and, over 82 percent of minimum wage earners do not have dependents" (*Ibid.*).

What happens to young people or people with few skills whose value to a company is less than the minimum wage? A worker who produces less value to a company than he or she is being paid is a burden on the company's profitability. Over time, assuming the worker's lack of productivity is observed by management, the worker's productivity has to rise, his or her compensation has to fall, or the worker has to be terminated by management. When governments intervene in this process by setting a minimum wage, they do nothing to increase a worker's productivity, and they prohibit a decrease in compensation. This leaves only one option for the employer: termination.

High minimum wages in fact have been shown to have a negative effect on job creation (Balis 2007). With the Great Recession driving unemployment rates to double digits in many cities, high minimum wages are creating a climate where young people and others entering the workforce have fewer job opportunities, creating greater demand for welfare and other social services and hindering economic growth.

Recommended reading: Milton Friedman, "Social Welfare Measures," Chapter 11 of *Capitalism and Freedom,* Chicago: University of Chicago Press, 1962, pp. 177-89; Ryan Balis, "Employment: Do Minimum Wage Increases Benefit Workers and the Economy?" National Center for Public Policy Research, January 2, 2007.

6. Reduce workers compensation costs.

The high cost of workers compensation discourages the launch of new businesses and discourages job creation.

Workers compensation statutes ensure that workers injured or disabled on the job are provided with fixed monetary awards. Typically, the funds used to provide employees with workers compensation are paid out by an employer on a monthly or yearly basis.

The workers compensation system developed as a compromise. Workers seeking financial relief from the cost of injuries incurred while at work did not want to have to go to court to sue for that relief. Employers wanted to find a way to reduce the costs of defending against such lawsuits. The deal was a "win-win" in the sense that it at least temporarily reduced legal costs, allowing more of the money paid by employers to reach injured workers. But over time, the deal has produced some undesirable unintended consequences.

The most obvious problem has been the rapid rise in workers compensation premiums over time. N. Michael Helvacian, in a report for the National Center for Policy Analysis, identified several reasons for the rising costs (Helvacian 2006). First, state regulators often fail to adequately risk-adjust premiums, resulting in most employers paying high premiums to subsidize a few industries with poor safety records. Second, states typically require employers to buy workers compensation insurance separate from the health insurance plans they have for their employees, meaning it often doesn't provide the cost savings of managed care or health savings accounts.

Third, workers compensation policies encourage workers to report injuries that may not be work-related because benefits under the workers compensation policy are better than under their regular health insurance policy. Finally, excessive regulation of premiums in the workers compensation insurance market results in relatively uncompetitive insurance markets.

A less-obvious, but no less important, cost of workers compensation laws, but no less important, is the loss of worker freedom that comes from a system that prohibits choosing insurance coverage or contracting directly with employers to substitute some insurance coverage for higher pay. The high cost of the system takes money out of workers' pockets and lowers the profits of their employers; both lower productivity and hinder economic growth.

Reforms that would make workers compensation less expensive include adjusting premiums according to the experience of individual firms rather than occupational or industry risk ratings; combining employee health plans and workers compensation medical coverage so employees could use the same provider networks and employers could pay the same negotiated fees; and creating Workers Compensation Accounts (WCAs) that would give workers more flexibility in how to spend the money allocated for their benefit.

Recommended reading: Michael N. Helvacian, "Workers' Compensation: Rx for Policy Reform," *NCPA Policy Report* No. 287, National Center for Policy Analysis, September 2006.

7. Keep housing affordable.

Public policies have made housing overly expensive, prompting workers to seek employment where housing is affordable.

Affordable housing is an important part of a good business climate, since workers take into account the cost of housing when negotiating wages or salaries. An inadequate supply of housing can drive up prices and encourage people to seek employment in areas where housing is cheaper and more plentiful.

Proposals to increase regulation of the real estate industry are in the news these days thanks to record foreclosures, a collapsing credit market, spiraling losses for some of the nation's largest financial institutions, and government agencies racing to find short-term solutions to stop the bleeding. Many of these problems are the result of regulatory policies that unnecessarily raise costs, limit competition, and expose taxpayers to risk. Restoring order to housing markets requires the following public policy reforms:

No bailouts – Underwriting by mortgage brokers and mortgage bankers became increasingly careless during the housing boom, resulting in unprecedented numbers of foreclosures. Letting the lenders get into trouble and possibly go bankrupt or be acquired by other firms is the best way to solve the problem. Holding lenders and borrowers accountable according to the terms of their contracts is the only way to "solve" the home mortgage crisis. Those who bought houses they could not afford should not be insulated from the consequences of their decisions; this is what gave rise to the housing bubble in the first place. In short, the government should not use responsible taxpayers' funds to bail out irresponsible buyers and lenders.

Privatize government-supported enterprises – Government-supported enterprises such as Fannie Mae, Freddie Mac, and the Federal Home Loan Bank pose significant systemic risk to the nation's overall financial system (DeHaven 2009). Although activities they perform may be valuable, they should be performed by the private sector without any promise, implicit or explicit, that taxpayers will come to the rescue when they fail. Likewise, the Federal Housing Administration, insofar as it exists at all, should uphold standards that reduce its chance of becoming a burden on taxpayers.

Real "smart growth" laws – Zoning ordinances, building codes, and smart growth policies all tend to increase the cost of home ownership, and there is plenty of evidence that these policies contributed to the housing bubble and subsequent collapse. Home values skyrocketed in cities with smart growth policies and strict building codes, and these cities experienced the highest rates of subprime lending, the biggest crashes in home values, and consequently the highest rates of foreclosure (Cox 2008). Repealing these policies and regulations would go a long way toward solving the affordable housing problem.

Vouchers for the poor – Public housing for low-income individuals and families continues to be an unfilled promise. Federal and local governments finally began privatizing public housing in the 1990s by subsidizing new construction that is privately owned, privately financed, and leased to former public housing tenants in a mixed-income format. More privatization and expanded use of housing vouchers is necessary (Higginson 2008).

Sound housing policy for the twenty-first century requires government be much less involved in the private housing market than was common in the twentieth century. The history and economics of housing give ample testimony to the fact that government involvement brings more government regulations, unsustainable investment levels, and higher housing costs.

Recommended reading: Tad DeHaven, "Three Decades of Politics and Failed Policies at HUD," *Policy Analysis* No. 655, Cato Institute, November 2009; Wendell Cox, "How Smart Growth Exacerbated the International Financial Crisis," *WebMemo,* The Heritage Foundation, April 29, 2008; William Higginson, "Housing Policy for the 21st Century," *Policy Study* No. 121, The Heartland Institute, July 2008.

8. Reduce the burden of regulations.

Regulations impose heavy burdens on businesses and individuals, yet frequently produce few if any social benefits.

Government regulations have a major effect on business climate. Along with cutting taxes, deregulation is one of the principal levers policymakers can move to improve their business climates.

Regulation and Economic Growth

Evidence of the negative effects of regulation on economic growth was found at the international level in a recent analysis showing "a strong causal link between regulatory quality and economic performance" (Jaliliana, Kirkpatrick, and Parker 2007; see also Nicoletti and Scarpetta 2003). Annual rankings of countries by their "economic freedom" also find close correlations between economic growth and indices of freedom, with regulations being an important part of the indices (Heritage Foundation and Wall Street Journal 2008).

The cost of regulations at all levels in the U.S. is estimated to be more than $1.5 trillion per year (ATRF 2008). Studies of regulations at the national level in the U.S. have found many regulations impose costs much greater than the benefits they create (Hahn 2005). Money spent complying with regulations reduces business and household incomes, giving rise to health and accident risks that must be taken into account when measuring the net benefit of the regulations. Economists estimate that every $15 million in additional regulatory compliance costs induces one fatality due to lost income (Lutter *et al.* 1999).

An analysis of the relation between federal regulation – measured by the number of pages in the *Federal Register* – and output per unit of capital, economic growth, and productivity showed that every 1 percentage point increase of the ratio of regulation to capital correlates with a .24 percentage point decrease in capital productivity (Dawson 2007).

Why Regulate?

If regulation is so expensive and often counterproductive, why regulate at all? At first (and even second) glance, it is difficult to understand why some industries are regulated and others are not. For example, until recently prices for many utilities (electricity, telephone, natural gas, water, and sewer services) were nearly universally regulated while prices for food, housing, and personal computers seldom were. Some industries such as railroads, airlines, and trucking have been or are being deregulated.

Either the demand to be regulated varies from industry to industry and over time, or the supply – the willingness of policymakers to approve regulation – is determined by something more than "the public interest" or even campaign contributions. During the 1990s, economist James L. Johnston offered a theory of regulation that solved this riddle (Johnston 1996a, 1996b). He observed that regulation often emerges when three conditions are present: the product or service is subject to substantial shifts in supply and demand, supply reliability cannot be achieved through precautionary stocks or other market techniques, and substantial social costs are incurred when supplies are interrupted or demand suddenly increases. The intended effect of regulation in such cases is to improve the stability of supply by encouraging extra investment in reliability.

Johnston's theory explains why electric utilities and the supply of doctors, for example, are so widely regulated – electricity is difficult to store, and the social costs of a power blackout or a natural disaster causing thousands or millions of people to need medical care would be huge. It also explains why the emergence of new financial instruments (such as mutual funds and futures and options markets) and institutions (such as Underwriters Laboratories and J.D. Powers and Associates) can make regulation less necessary.

The Johnston Test

Johnston's theory of regulation provides a measurable objective for regulation: Reducing the social costs caused by interruptions to the supply of or demand for key goods or services. This in turn provides a new way to discover deregulation opportunities and increase the odds that deregulation initiatives are successful (Bast 2010).

Policymakers should begin by asking if current regulations are justified by the Johnston Test: Does the industry they pertain to exhibit all three traits of an industry that requires regulation? If not, then that industry is a candidate for deregulation.

If an industry has one or two but not all three of the traits of an industry that should be regulated, then a deregulation effort should be tailored to address the one or two areas where markets might not be expected to succeed without high social costs. For example, the high social cost of hurricanes and other extreme weather events could be addressed through insurance programs or nonprofit programs that reward voluntary efforts to preserve fragile shorelines.

Even industries that pass the Johnston Test can be candidates for deregulation. The Johnston test directs our attention to how new technologies or market institutions can emerge that stabilize prices without government's help. For example, the creation of derivative markets for oil and natural gas made government price controls unnecessary. New financial markets can similarly reduce risk in other areas, making deregulation possible.

Unnecessary regulations cause waste and lost productivity. Hundreds of billions of dollars a year could be saved by asking if current and proposed regulations are justified by the Johnston's Test, and by then repealing those that fail the test. Deregulation is a proven way to improve business climates while benefitting consumers.

Recommended reading: James L. Johnston, "Which Industries Are Regulated?" The Heartland Institute, December 10, 1996; Joseph L. Bast, "Why Regulate? New Applications of the Johnston Test," *Policy Brief*, The Heartland Institute, August 2010; Robert W. Hahn, *In Defense of the Economic Analysis of Regulation* (Washington, DC: AEI-Brookings Joint Center for Regulatory Studies, 2005).

9. Discourage lawsuit abuse.

Lawsuit abuse imposes billions of dollars of unnecessary costs on businesses and citizens every year.

A state and nation's legal system plays a major role in enforcing contracts and upholding the Rule of Law, which in turn affects the business climate. A state's tort system – the subset of laws governing questions of liability in the event of injury – helps protect the safety of the state's residents and visitors, while its cost influences the competitiveness of businesses operating within its borders.

In an increasingly globalized economy, U.S. firms must compete with businesses in other countries that operate under different tort systems. "European courts," writes Northwestern University law professor Stephen Presser, "are much less likely to hand out unpredictable and disproportionate damage judgments –

unlike American courts, where ruinous verdicts are a potential in too many lawsuits" (Presser 2002, 1).

Good and Bad Tort Systems

A good tort system compensates victims fully, in a timely fashion, and without excessive costs to either the parties or taxpayers. A bad tort system produces unpredictable awards, requires months or years of litigation before awards are made, and consumes a significant portion of monies in lawyer fees and court costs. A good tort system sends clear signals to potential litigants about their duties and obligations, which leads to behavior that minimizes unnecessary conflicts and social costs.

Unfortunately, the U.S. tort system has become increasingly dysfunctional over time. The Pacific Research Institute noted in March 2010:

> There is growing evidence that tort costs in the United States are far greater than in other countries, and that much of the difference is due to lawsuit abuse. Lawsuit abuse and the accompanying excessive litigation and damage awards act as a destructive "excess tort tax," which drags down the economy of a state and the country. Excessive tort burdens divert resources to the lawsuit industry and away from more productive activities such as R&D or expanding access to health care. There is growing evidence that today's U.S. tort system is a net cost to society at the margin (McQuillan and Abramyan 2010, 17).

The authors of another report from the Pacific Research Institute, titled *Jackpot Justice,* found the total annual cost of the U.S. tort liability system in 2007 was $865 billion (McQuillan, Abramyan, and Archie 2007). Alarmingly, less than 15 cents of every dollar reached injured people, with the rest consumed by lawyers' fee, court costs, and other legal expenses.

A Tort Reform Agenda

During the 1980s and 1990s, many states reformed their tort systems to discourage lawsuit abuse. Ten states adopted reforms in the past two years: Arizona, California, Florida, Georgia, Indiana, Louisiana, Oklahoma, Rhode Island, Tennessee, and West Virginia. Of this group, Oklahoma was the most successful, adopting reforms in 16 different areas of tort law (ATRA 2009). Though reform opportunities vary from state to state, the following have proven beneficial in states where they have been adopted:

Limit non-economic tort damages – Claims for non-economic tort damages, such as pain and suffering and loss of conjugal affection, are a major source of lawsuit abuse. Such claims are impossible to objectively quantify, and jurors are in a poor position to make good judgments about conflicting claims. States that have capped non-economic tort damages have seen the amount of litigation and average awards drop significantly, along with malpractice premiums that raise costs for firms and consumers.

Cap or ban punitive damages – Punitive damages are awarded by juries above the amount necessary to make the victim whole in order to punish a defendant and/or deter future bad behavior. Like non-economic damages, this is an area of frequent abuse that is usually beyond the proper role and competence of a jury. Such damages are is also a windfall for trial lawyers.

Limit contingent fees – Contingent fee lawyers typically receive about one-third of the total verdict amount they recover. This can result in a windfall for lawyers in cases where the recovery amount is high but the time invested by lawyers is low, while plaintiffs watch much of their awards go into their lawyers' pockets. A strong case can be made that lawyers, as fiduciaries for their clients, have a legal duty to turn over to their clients any fees in excess of amounts that are reasonable and risk-based (Horowitz 2001).

Pass a "loser pays" law – Under the "American rule" of litigation, each side bears its own legal fees, win or lose. Outside the U.S., most other countries use what is called the "English rule," under which the loser pays the other side's legal fees. Many scholars over the years have called for the U.S. to adopt the "English rule" as a way to discourage frivolous claims and give litigants an incentive to arrive at settlements more quickly.

Adopt an FDA defense law – Compliance by drug companies with the labeling and warning requirements imposed by the Food and Drug Administration (FDA) ought to preempt legal challenges alleging failure to communicate a drug's proper use or warn of possible side-effects. Drugs approved by the FDA have gone through a grueling process of testing that takes an average of ten years and costs nearly $1 billion. State legislatures can adopt legislation affirming the use of an "FDA defense" by drug companies.

Enact stiffer sanctions on frivolous claims – In most states, the prevailing parties in cases found to have been frivolous can recover their legal fees. State legislatures can give judges the authority to levy additional monetary sanctions on parties, lawyers, and law firms that file frivolous claims.

Recommended reading: Lawrence J. McQuillan and Hovannes Abramyan, *U.S. Tort Liability Index 2010,* Pacific Research Institute, March 2010; Lawrence J. McQuillan, Hovannes Abramyan, and Anthony P. Archie, *Jackpot Justice: The True Cost of America's Tort System*, Pacific Research Institute, 2007; Michael Horowitz, "Can Tort Law Be Ethical? A Proposal to Curb Ill-Gotten Gains," *The Weekly Standard*, March 19, 2001, pp. 18-20.

10. Attract members of the creative class.

Highly creative people can be attracted to a city or state by keeping their needs and preferences in mind.

A final component of a good business climate is adopting policies that make cities and communities attractive to scientists, engineers, entrepreneurs, and other members of the so-called "creative class." These individuals are sought after by companies, with the result that businesses will move to cities and regions where such individuals congregate.

The Rising Creative Class

Richard Florida, at the time a professor of economic development at Carnegie Mellon University and now at the University of Toronto, in his 2001 book *The Rise of the Creative Class,* contended that "regional economic growth is driven by the location choices of creative people – the holders of creative capital – who prefer places that are diverse, tolerant, and open to new ideas" (Florida 2002, 223). His "Creativity Index" found two major trends – "the first is a new geographic sorting along class lines," the second is "that the centers of the Creative Class are more likely to be economic winners" (*Ibid*., 235).

Some of Florida's bigger claims appear to have been overblown (Malanga 2004), but underneath the hype are some facts that anyone interested in improving a city's, state's, or nation's business climate ought to keep in mind. For example, the number of scientists and engineers, according to Florida, "increased from 42,000 in 1900 to 625,000 in 1950, before expanding to 5 million by 1999 – an eightfold increase since midcentury. ... In 1900 there were just 55 scientists and engineers for every 100,000 people in the United States. That figure increased to 400 by 1950 and to more than 1,000 in 1980. By 1999 there were more than 1,800 scientists and engineers per 100,000 people" (*Ibid.*, 45).

Florida reports a similarly dramatic rise in the number of professional artists, writers, and performers, growing from 200,000 in 1900 to 525,000 in 1950 and 2.5 million in 1999, or from 250 for every 100,000 Americans in 1900 to 350 by 1950, 500 in 1980, and 900 in 1999 (*Ibid.*, 46).

Lifestyle Demands

The lifestyle demands of members of the creative class and the effects they have on the nations, states, and cities that attract them have been described by Florida as well as several other authors including Daniel Pink (Pink 2001), Joel Kotkin (Kotkin 2000), David Brooks (Brooks 2001) and George Gilder (Gilder 2000). Three that stand out are:

1. Members of the creative class are younger than the average worker and seek cities with amenities that suit their lifestyles.

2. They change jobs frequently and consequently prefer to live in cities with lots of job opportunities to avoid having to relocate.

3. Creative people spend more time on outdoor recreation and view their cities the way tourists do, as a collection of places to visit to have fun.

A group of people who should be considered members of the "creative class," but who don't receive enough attention from policymakers, are entrepreneurs. Entrepreneurs, as wealth creators, ought to be recruited by any city or state trying to improve its business climate. They are extremely sensitive to income tax rates since most of their business income is reported as personal income and subject to individual income taxes (Merrill 2007). They need flexible labor policies in order to assemble new labor forces or change existing ones, meaning policies that favor labor unions are unfavorable to entrepreneurship.

Excessive regulation, the threat of frivolous litigation, and the other obstacles to businesses mentioned earlier in this chapter apply with extra weight to entrepreneurs since they often lack the experience and resources to surmount these obstacles. Entrepreneurs are less likely than established businesses to engage in lobbying for subsidies, tax abatements, or other kinds of favoritism, so such programs tend to work to their disadvantage.

One way states can find out how they stand in the competition for entrepreneurs is to check the "State New Economy Index" created by the Information Technology and Innovation Foundation and the Ewing Marion Kauffman Foundation (Atkinson 2008). The index is based on 29 indicators grouped into five categories: knowledge jobs, globalization, economic dynamism, transformation to a digital economy, and technological innovation capacity.

Recommended reading: Chris Edwards, "Taxes and Small Business Job Creation," statement before the Senate Committee on Finance, Cato Institute, February 23, 2010; Richard Florida, *The Rise of the Creative Class*, New York, NY: Basic Books, 2002; Steven Malanga, "The Curse of the Creative Class," *City Journal,* Manhattan Institute, Winter 2004.

References

Atkinson, Robert D. 2008. *2008 state new economy index*. Information Technology and Innovation Foundation and the Ewing Marion Kauffman Foundation, February.

ATRA. 2009. State tort reform enactments. American Tort Reform Association.

ATRF. 2008. Cost of government day: 2008 report. Americans for Tax Reform Foundation, www.atr.org/content/pdf/2008/July/071508ot-cogdreport.pdf.

Badenhausen, Kurt. 2007. Special report: the best states for business. Forbes.com, July 11. www.forbes.com/2007/07/10/washington-virginia-utah-biz-cz_kb_0711 bizstates.html.

Balis, Ryan. 2007. Employment: do minimum wage increases benefit workers and the economy? National Center for Public Policy Research, January 2.

Bartik, Timothy. 1994. Jobs, productivity, and local economic development: what implications does economic research have for the role of government? *National Tax Journal* 47: 847–62.

Bast, Joseph. 2010. Why regulate? New applications of the "Johnston test." *Policy Brief*, The Heartland Institute, August.

Beck, John H. 1987. Selective tax abatements: do they work? *Policy Study* No. 14, The Heartland Institute, March.

Becsi, Zsolt. 1996. Do state and local taxes affect relative state growth? *Economic Review*, Federal Reserve Bank of Atlanta, March.

BLS. 2010. Union members 2009. Bureau of Labor Statistics, January 22.

Brooks, David. 2001. *Bobos in paradise: the new upper class and how they got there.* New York, NY: Simon and Schuster.

Chen, Duanjie and Jack Mintz. 2010. U.S. effective corporate tax rate on new investments: highest in the OECD. *Tax & Budget Bulletin* No. 62, Cato Institute, May 5.

Cox, Wendell. 2008. How smart growth exacerbated the international financial crisis. *WebMemo,* The Heritage Foundation, April 29.

Dawson, John W. 2007. Regulation and the macroeconomy. *Kyklos* 60 (1): 15–36.

DeHaven, Tad. 2009. Three decades of politics and failed policies at HUD. *Policy Analysis* No. 655, Cato Institute, November.

Edwards, Chris. 2010. Taxes and small business job creation. Statement before the Senate Committee on Finance, Cato Institute, February 23.

Florida, Richard. 2002. *The rise of the creative class.* New York, NY: Basic Books.

Frantz, John. 1994. Davis-Bacon: Jim Crow's last stand. *The Freeman: Ideas on Liberty* 44 (2).

Friedman, Milton. 1962. "Social Welfare Measures," Chapter 11 of *Capitalism and Freedom,* Chicago: University of Chicago Press.

Gabe, Todd and David S. Kraybill. 2002. The effect of state economic development incentives on employment growth of establishments. *Journal of Regional Science* 42 (4).

Gilder, George. 2000. *Telecosm: how infinite bandwidth will revolutionize our world.* New York, NY: The Free Press.

Glassman, Sarah, Michael Head, David G. Tuerck, and Paul Bachman. 2008. *The federal Davis-Bacon Act: the prevailing mis-measure of wages.* Beacon Hill Institute at Suffolk University, February.

Gulibon, G. 1999. Growing Pennsylvania's economy: tax cuts vs. economic development programs. The Commonwealth Foundation, March. www.heartland.org/article/3071.

Hahn, Robert W. 2005. *In defense of the economic analysis of regulation.* Washington, DC: AEI-Brookings Joint Center for Regulatory Studies, pp. 41ff.

Helvacian, N. Michael. 2006. Workers' compensation: Rx for policy reform. *NCPA Policy Report* No. 287, National Center for Policy Analysis, September.

Heritage Foundation and Wall Street Journal. 2008. *2008 index of economic freedom*, www.heritage.org/Index/.

Higginson, William. 2008. Housing policy for the 21st century. *Policy Study* No. 121, The Heartland Institute, July.

Horowitz, Michael. 2001. Can tort law be ethical? a proposal to curb ill-gotten gains. *The Weekly Standard*, March 19, pp. 18-20.

Jaliliana, Hossein, Colin Kirkpatrick, and David Parker. 2007. The impact of regulation on economic growth in developing countries: a cross-country analysis. *World Development* 35 (1): 87-103.

John Locke Foundation. 2006. *Agenda 2006.* www.johnlocke.org/agenda2004/economicdev. html.

Johnson, Brian M. 2007. *2007 index of worker freedom: a national report card*. Alliance for Worker Freedom.

Johnston, James L. 1996a. A general theory of regulation and deregulation. In *Deregulation of energy: intersecting business, economics and policy,* Conference Proceedings, 17th Annual North American Conference, U.S. Association for Energy Economists, October, pp. 145-154.

Johnston, James L. 1996b. Which industries are regulated? The Heartland Institute, December 10. www.heartland.org/article/11789.

Keating, Raymond. 2010. Business tax index 2010: best to worst state tax systems for entrepreneurship and small business. Small Business & Entrepreneurship Council. www.sbecouncil.org/uploads/BTI2010_2.pdf.

Kotkin, Joel. 2000. *The new geography: how the digital revolution is reshaping the American landscape.* New York, NY: Random House.

Lutter, Randall *et al.* 1999. The cost-per-life-saved cutoff for safety-enhancing regulations. *Economic inquiry* 37 (599): 608.

Malanga, Steven. 2004. The curse of the creative class. *City Journal,* Manhattan Institute, Winter.

McQuillan, Lawrence J. and Hovannes Abramyan. 2010. *U.S. tort liability index 2010.* San Francisco, CA: Pacific Research Institute, March.

McQuillan, Lawrence J., Hovannes Abramyan, and Anthony P. Archie. 2007. *Jackpot justice: the true cost of America's tort system*. San Francisco, CA: Pacific Research Institute.

Merrill, Peter. 2007. The corporate tax conundrum. *Tax Notes,* TaxAnalysts.com, October 8.

Michigan Chamber of Commerce. 2007. Legal reform in Michigan: past, present and future.

Moody, J. Scott. 2006. Higher taxes lower economic performance. *Maine Issue Brief,* Maine Heritage Policy Center, September 19.

Moore, William J. 1998. The determinants and effects of right-to-work laws: a review of the recent literature. *Journal of Labor Research* 19 (3): 449-69.

NAWER. 2008. Paycheck protection. *Issue Brief,* National Alliance for Worker and Employer Rights. www.freeworkplace.org/legislativeupdate/pp.php, accessed on August 18, 2008.

Nicoletti, Giuseppe and Stefano Scarpetta. 2003. *Regulation, productivity, and growth: OECD evidence*. Policy research working paper. The World Bank, January.

NILRR. 2008. Right to work states' lead in job growth consistent over time. News release, National Institute for Labor Relations Research, April 15.

Padgitt, Kail. 2009. 2010 state business tax climate index (seventh edition). *Background Paper* No. 59, Tax Foundation, September 22. www.taxfoundation.org/research/show/ 22658.html.

Peters, Alan and Peter Fisher. 2004. The failures of economic development incentives. *Journal of the American Planning Association* 70: 27-37.

Pink, Daniel. 2001. *Free agent nation: how America's new independent workers are transforming the way we live*. New York, NY: Warner Books.

Presser, Stephen B. 2002. How should the law of products liability be harmonized? what Americans can learn from Europeans. *Global liability issues.* Center for Legal Policy, Manhattan Institute, February.

Stanek, Steve. 2006. Lowest business tax states have best economies: study. *Budget & Tax News*, December.

Vedder, Richard. 2001. Taxes and economic growth. Taxpayers Network Inc., September.

Williams, Walter 2006. Minimum wage, maximum folly. Townhall.com, April 26.

Additional Resources

Additional information about business climates is available from The Heartland Institute.

- PolicyBot, The Heartland Institute's free online clearinghouse for the work of other free-market think tanks, contains hundreds of documents on business climate issues. It is on Heartland's Web site at www.heartland.org.
- *www.budgetandtax-news.org*, a Web site devoted to the latest news and commentary about budget and tax issues, often addresses business climate issues. Read headlines, watch videos, or browse the thousands of documents on school reform available from *PolicyBot*, Heartland's free online clearinghouse for the work of other free-market think tanks.
- *Budget and Tax News*, a monthly publication from The Heartland Institute. Subscribe online at www.heartland.org.

Directory

The following national organizations are reliable sources of information on business climate issues.

Alliance for Worker Freedom, www.workerfreedom.org

Americans for Tax Reform Foundation, www.atr.org

American Legislative Exchange Council (ALEC), www.alec.org

Beacon Hill Institute, www.beaconhill.org

Cato Institute, www.cato.org

Council on State Taxation (COST), www.cost.org

Heartland Institute, www.heartland.org

Heritage Foundation, www.heritage.org

John Locke Foundation, www.johnlocke.org

Manhattan Institute, www.manhattan-institute.org

National Alliance for Worker and Employer Rights, www.freeworkplace.org

National Institute for Labor Relations Research, www.nilrr.org

Pacific Research Institute, www.pacificresearch.org

Small Business & Entrepreneurship Council (SBEC), www.sbecouncil.org/

Tax Foundation, www.taxfoundation.org

Everything you need to know about one of the hottest public policy issues facing legislators and civic and business leaders today.

Use the ideas and data in this booklet for:

- Answering questions from constituents;
- Formulating position papers and talking points;
- Preparing speeches and testimony;
- Writing op-eds, letters to the editor, and commentaries; and
- A tool for further research

How to improve a city's, state's, or nation's business climate is one of the most controversial issues in political debates today. What can governments do to encourage more investment? Should governments offer selective tax abatement and subsidies to businesses to attract them or keep them from leaving? Which regulations should be repealed or modernized, and which should be retained?

This booklet, the eighth in a series from The Heartland Institute, provides policymakers and civic and business leaders a highly condensed and authoritative yet easy-to-read guide to the debate. It presents the 10 most important principles for improved business climates, explaining each principle in plain yet precise language, as well as an extensive bibliography for further research.

The Heartland INSTITUTE

Discovering, developing, and promoting free-market solutions to social and economic problems.

The Heartland Institute
19 South LaSalle Street #903
Chicago, IL 60603
phone 312/377-4000
fax 312/377-5000
www.heartland.org