



Best Places

The Best States For Business

Kurt Badenhausen, 08.16.06, 8:00 AM ET

Over the past ten years, the United States has seen corporations move job after job overseas in search of cheaper labor. An equally large problem has been the corporate tax rate. Five years ago, the U.S. corporate tax rate of 39% was the sixth highest among Organization for Economic Co-operation and Development countries, according to the Tax Foundation. While other countries have lowered taxes, the U.S. rate hasn't budged, and today it has the highest rate among OECD countries, eclipsing former tax gougers such as Germany and Canada.

And when you start factoring in litigation costs, \$250 billion per year or 2% of gross domestic product, it's amazing that any companies stay in the U.S. So, what is a company to do in this high-cost, antibusiness environment? Maybe minimize the damage by moving to a more business-friendly state.

To compile our listing of the best states for business, we ranked all 50 states on 30 metrics in six main categories: business costs, economic climate, growth prospects, labor, quality of life and regulatory environment. The data produced a clear No. 1. The Commonwealth of Virginia takes the crown in our first ever ranking of Top States for Business.

In Pictures: Best States For Business

Virginia scored well across the board. In fact, it ranked in the top ten in all six big categories we looked at. No other state scored in the top ten in more than three categories. The individual metrics Virginia scored well in included taxes, where it ranked seventh, at 15% below the national average according to West Chester, Pa., research firm Moody's Economy.com. Pollina Corporate Real Estate, a commercial real estate consulting firm, examined each state's incentive programs for Forbes.com and found Virginia's to be second best behind South Carolina. That ranking combined with its solid tort climate propelled Virginia to the top spot in the regulatory environment category.

Our second-ranked state, Texas, experienced a boom and bust in many categories similar to what its economy has witnessed with oil, real state and banking over the years. Texas was among the best when it came to population growth, transportation, tort climate and cost of living. It also has the largest number of companies with \$1 billion in sales at 110, including ExxonMobil, Dell, AT&T and AMR. But it ranked last in high school attainment (78% of the adult population has a degree) and scored poorly on unemployment, crime and poverty rates.

Mississippi, West Virginia and 50th-ranked Louisiana bring up the rear of the ranking (to be fair, Mississippi and Louisiana were hurt by the devastation that Hurricane Katrina inflicted). All three states suffer from weak labor pools and growth prospects as well as a poor quality-of-life ranking.

We have been ranking the [Best Metro Areas For Business](#) for eight years, and this ranking of states looks at many of the same factors including business and living costs, job and income growth, educational attainment, net migration and crime rates. But we go a step further with this ranking in several ways. First, we look at projections in regards to 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 the past five years. Another addition is the role that government plays on the business climate in terms of environmental and labor laws, as well as tax and other incentives offered. These factors play out on the state level instead of on the local level.

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#3 North Carolina

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GOVERNOR	Mike F. Easley
POPULATION	8,683,240
GROSS STATE PRODUCT	\$336 billion
GSP GROWTH	3.4%
BUSINESS COSTS ¹	4
LABOR ²	26
REGULATORY ENVIRONMENT ³	3
ECONOMIC CLIMATE ⁴	30
GROWTH PROSPECTS ⁵	4
QUALITY OF LIFE ⁶	26

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