

NEW HAMPSHIRE UNION LEADER

Charles Arlinghaus: Never forget to read the fine print

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Is New Hampshire number one or aggressively mediocre? Be wary of vague reports touted by politicians. They just might be misleading you.

The best case in point is an amusing advertisement in which Gov. Maggie Hassan selects to highlight the one decent piece of fruit out of a rotting basket. New Hampshire, we are told, was ranked by CNBC as number one in business friendliness. What isn't mentioned is that it was a very minor consolation prize in a ranking which found New Hampshire to be mediocre. We aren't great for business but we have a nice smile, is what the study found.

CNBC has annually ranked New Hampshire as a mediocre state for business, and this year was no exception. They ranked us 26th, almost perfectly mediocre which correlates well with our stagnant economy. They found us among the worst dozen states in the categories cost-of-doing-business, infrastructure, cost-of-living and access-to-capital. But a tiny 6 percent of the ranking is made up by an undefined ranking of friendliness.

Presenting a tiny component of an overall mediocre scorecard is why no one ever believes anything they hear in a political ad.

Politicians misleading voters is to be expected, but CNBC's "methodology" is disappointing. The point of evaluation and scorecards is study and improvement. Their methodology section merely says they rely on publicly available data but identify none of it. Their vagueness turns what they want to describe as a study into unverifiable infotainment. Observers of the professional standards of cable news won't be surprised.

The other extreme in transparency and data is provided by William Ruger and Jason Sorens' latest version of their "Freedom in the 50 States," published this year by the Cato Institute. Ruger and Sorens include 300 pages of explanation, including 121 footnotes and links to Excel spreadsheets with raw data.

Better still, their narrative explains in great detail why they measured each item, rationales for that measurement, drawbacks to some measurements, citation of the academic work supporting

their choices and specific weighting choices. The narrative for each state explains what specific factors account for rating strength and identifies data anomalies that might mislead.

The usefulness of such detailed narrative is that it allows observers to learn about the comparative strengths and weaknesses of a state whether they share the authors' preferences or not. Just as important, the rigor and the discussion forces those interested in public policy to think about their policy choices and preferences. This should not be surprising as both authors are college professors as well as researchers.

Ruger and Sorens identify New Hampshire as the most free state in the aggregate, but of course aggregation misses a lot of detail. More than a third of the index is made up of "regulatory freedom." Rather than CNBC's ill-defined friendliness, there are 54 different measures across seven sub-categories. By their estimate, New Hampshire ranks a lackluster 29th. This corresponds with how most business people see New Hampshire's environment — not great, not horrible.

Ruger and Sorens also found a high statistical correlation between their economic rankings and those of Chief Executive magazine as a quantitative control between an academic approach and that of practitioners.

Our ranking is improved drastically by a very high fiscal ranking. This area is open to a lot of discussion. Our state-level tax component is second-best in the country while our local level is 39th. Although the state and local taxation measured has stayed at 7.6 percent of personal income (a proxy for the size of the economy,) the state share has decreased and the local share increased.

The authors prefer local taxation to state taxation in their analysis on the presumption that local taxation is more easily influenced by voter preference, either by direct action or in the choice made economically famous by Charles Tiebout of "voting with their feet." When there are many competing jurisdictions within a short distance, many citizens can select a jurisdiction whose preferences match their own simply by moving.

It is not clear to me that in modern society apathy and information scarcity don't combine to make localities less able to be influenced than states.

But this is precisely the sort of discussion than can be stimulated by detailed transparent analysis. Policymakers of all stripes will profit from reading Ruger and Sorens and ignoring cable news.