

News Release

For Immediate Release

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MTF Finds Notable Improvements But State's Business Costs Still Among the Highest in the Nation

Massachusetts has made gains in the past two years but still ranks as one of the nation's most expensive states in which to conduct business, according to a report released today by the Massachusetts Taxpayers Foundation (MTF).

The report compares six key Massachusetts business costs -- health care, electricity, manufacturing wages, unemployment insurance, workers' compensation and corporate income taxes -- with those in other states. It finds significant improvement in one area -- workers' compensation -- and slight improvement in others; however, Massachusetts is still among the top ten states in the nation in the remaining five areas.

The report, entitled "An Economy in Transition: Reducing the High Cost of Doing Business in Massachusetts," is MTF's second comprehensive survey of leading business cost indicators. The first survey was published in October of 1993. In these studies, the Foundation tracks the Commonwealth's business cost structure to assess our competitiveness relative to other states.

"The state has made notable improvements compared to the picture presented two years ago," said MTF President Michael J. Widmer. "However, our most recent data still tell a sobering tale. In order to build on our strengths and enjoy reasonable economic growth in the future, it is critical for Massachusetts to further reduce the high cost of doing business."

Among the report's findings:

The most dramatic improvement in the cost of doing business in Massachusetts is in the area of workers' compensation. Massachusetts now ranks 19th in the nation, with premium rates a mere 2.8 percent above the national average. This compares to the 1993 study, when Massachusetts ranked 14th highest, and premium rates were 13 percent above the national average. Average benefits per employee have fallen to about 5 percent below the national average, compared to 26 percent above in the previous study. "Bringing workers' compensation costs to a competitive level clearly results from the reforms of 1991, and both the administration and the Legislature deserve tremendous credit for this achievement," said Mr. Widmer.

Health care costs in Massachusetts (the greatest portion of which are paid through employer-provided benefits) are still the highest in the country, with estimates ranging from 18 to 25 percent above the national average. Key contributing factors are the high level of personal income in Massachusetts and the state's supply of quality health care resources. Several national forces are slowing the rate of increase in health care costs, and it is likely that future data will show that Massachusetts has made gains in reducing its relative health care costs.

Massachusetts's energy costs, measured by the price of electricity, also remain among the highest in the country, despite marginal improvement over the past two years. Industrial rates are 85 percent higher than the national average, placing Massachusetts fourth highest by this measure. State policy makers are actively supporting the national movement toward a more competitive market for electricity. That support, together with local utility companies' restructuring efforts, should lessen the state's cost disadvantage in the coming years.

Wage costs in Massachusetts have improved marginally, but the Commonwealth remains tenth highest among the 50 states. Average hourly earnings for the state's manufacturing workers are 4.65 percent above the national average, while wages for all industries in Massachusetts are 12 percent above the U.S. average.

Unemployment insurance costs have fallen slightly since the 1993 report because of the improving economy and Massachusetts' declining unemployment rates. Still, Bay State businesses face an unemployment insurance tax rate that is 67 percent higher than in other states, and fourth highest in the nation.

Corporate income taxes is the only category in the report in which Massachusetts did not improve. Massachusetts' corporate income taxes were the sixth highest of any state, compared to twelfth highest in 1991. Massachusetts' corporate tax receipts were unusually low in 1991 and 1992 because many corporations were adversely affected by the severe recession here. Corporate income taxes appear to be returning to pre-recession levels, when Massachusetts generally ranked among the top five states.

The study concluded that corporate income taxes and unemployment insurance remain the major targets for additional state policy initiatives to bring costs more in line with competing states.

The report includes all 50 states, but focuses on the states with which Massachusetts most often competes for jobs, including large industrial states, "high technology" states and the other New England states.

"Competition among states for jobs is intensifying and the cost of doing business is a key factor in location decision," said Mr. Widmer. "Increasingly, other states are investing in higher education and improved access to venture capital, investments which are allowing them to match Massachusetts' traditional strengths. In this environment, our high business costs have become an even greater liability. In order to take advantage of our strengths, it has become critical for Massachusetts to bring down the high cost of doing business."

The Massachusetts Taxpayers Foundation is an independent, nonprofit statewide organization dedicated to governmental research and the public interest. Founded more than 60 years ago, MTF ranks among the largest and most effective organizations of its kind in the country.