



# The Times-Gazette

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## Ohio needs more companies like Skybus

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Let the hand wringing begin. How could a promising company like Columbus-based start up Skybus go bust so quickly? Could we have done anything to prevent its demise?

The answer is no. It's a sobering answer for Ohio-based entrepreneurs, state policymakers, and the future of the state economy.

But the lesson for Ohio's economic future is not in Skybus's bankruptcy. It's in the fact it started up at all. We need more, not fewer, Skybuses.

Business failure is an essential part of the churn of a vibrant economy. They can't be prevented, and policymakers shouldn't try.

Research shows that an economy's business failure rate has little to do with its success in generating jobs (and wealth).

Indeed, a U.S. Small Business Administration report found that the rate of small company "births" was crucial to state economic growth, employment, and income. What's important is the number of firms that start, not the number that fail.

This is a critically important insight. On a statewide basis, Ohio's economy doesn't suffer because companies fail. It suffers because enough new ones don't start. Entrepreneurs don't see Ohio as a place to begin their quest for fortune.

And why should they? Ohio's business climate has ranked near the nation's bottom for decades - 46th out of 50 states according to the Washington, D.C.-based Tax Foundation. The income tax is our "category killer." Ohio's state and local income taxes bury us in 48th spot, just above California and New Jersey.

Ohio's income taxes punish small businesses owners for making more money. Then, in a double whammy, our estate tax encourages them to move it out of state. Simply reducing the number of tax brackets could add 55,000 jobs to the Ohio economy and increase payroll by \$1.8 billion according to research by the Beacon Hill Institute at Suffolk University in Boston.

What does this have to do with Skybus?

Skybus's failure was not pre-ordained. Certainly rising fuel costs contributed, pushing its costs high enough to erode some of its competitive advantage as a discount airline. Some will also point to a failed business model.

But, a lot of smart people, with extensive experience in the airline industry, and with a lot of money to lose, believed the business model was sound enough to invest nearly \$160 million dollars. It's hard for policymakers sitting in Columbus (or the Columbus airport) to second guess those investor's decisions, and they shouldn't.

The lesson lies elsewhere. The birth and quick death of Skybus illustrates the economic policy hazards imbedded in a globally competitive, service-based economy. We can't pick winners and losers. We don't have the time, and we don't have the knowledge.

Instead, we need to build a nimble, entrepreneur friendly business climate - policies that encourage new firm to start up from as broad a base as possible without prejudice.

Ohio's path forward is as clear as it is difficult.

Ohio needs to streamline the business start up process and reduce the burdens on current and future wealth creators. An intermediate step might be to adopt one income tax rate for all Ohio households, and eliminating income tax obligations for low and moderate income households.

A more radical and economically beneficial step would be to follow the lead of high growth states like Texas and eliminate the income tax altogether. This would help establish Ohio as the Hong Kong of the Midwest, demonstrating to investors everywhere that the state is serious about promoting and protecting wealth creation.

Ohio doesn't just need one or two new businesses. It needs ground swell. Gov. Strickland and state policymakers should dump the failed policies of the past and consider adopting outside the box reforms like phasing out the state income tax over the long term.

Ohio's economic future rests in the states' ability to create a business climate that fosters entrepreneurship without prejudice from a broad base. We need to improve our business climate for entrepreneurship because, in the words of economists Noel Campbell and Tammy Rogers, the "primary impact of economic freedom on entrepreneurial activity lies in permitting entrepreneurs to see and exploit economic opportunities."

While many insiders and outsiders, especially investors, may be soul searching for reasons to explain the economic demise of Skybus, the truth is Ohio needs more entrepreneurs like those, not fewer.

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