

Recommendations for Boosting Investment, Economic Growth, and Job Creation in Florida

Presented in anticipation of the Florida Jobs Summit, January 15, 2010, in Orlando, Florida

Introduction

Florida TaxWatch is honored and pleased to present the following recommendations for boosting investment, economic growth, and job creation. These recommendations, presented in summary form, are based on recently published and on-going Florida TaxWatch research, as well as ideas provided by the *Florida Council of Economic Advisors at Florida TaxWatch* and the Advisory Board to the *Center for Competitive Florida at Florida TaxWatch*.

Florida TaxWatch commends Florida Senate President-Designate Mike Haridopolos and Florida House Speaker-Designate Dean Cannon for convening the *Florida Job Summit* on January 15, 2010 in Orlando, Florida. At this critical and unprecedented time in Florida's history, strong leadership, thoughtful actions, and well researched public policies are more vital than ever. Florida TaxWatch respectfully submits these recommendations to the organizers of the *Florida Job Summit* in furtherance of their critical mission.

The *Florida Council of Economic Advisors at Florida TaxWatch* is comprised of nine distinguished economists from Florida's universities as well as public and private sector organizations. The Advisory Board to the *Center for Competitive Florida at Florida TaxWatch* is made up of twenty-three high ranking executives and leaders representing a diverse range of businesses, industries, and non-profit organizations throughout the state. Combined, these two Florida TaxWatch groups represent the best thinking of academicians and business leaders on policies to promote a vibrant, healthy, and growing Florida economy.

Economic Summary and Background Information

Recession More Severe in Florida

As documented in the Florida TaxWatch *Economic Commentary on the Florida Economy*, August 2009:

“...The current recession in Florida is proving to be significantly more serious than the recessions in the rest of the U.S. and in most of the global economy. Florida entered the recession before the rest of the nation; the magnitude of the contraction in Florida is considerably larger than in the rest of the country; and the near-term prospects for an end to the recession and a meaningful rebound are dimmer for Florida than most other states.”¹

Current Conditions: Florida Still in Recession

A variety of current economic indicators show that the Florida economy is still contracting – though the rate of decline has diminished considerably.² At the same time, national data suggest the U.S. recession has ended and an economic recovery is underway.

Near-Term Outlook: Florida Recovery to Lag the Nation

The consensus forecast of the *Florida Council of Economic Advisors at Florida TaxWatch* is that the contraction in Florida's economy will cease by late 2009 to early 2010, and that a meager economic expansion will start in mid-2010. By roughly year-end 2010, the state's unemployment rate is expected to drop from a high in excess of 12 percent to about 10 percent.

Structural Changes in Florida's Economy

The severity of the recession in Florida can be traced in large part to the cataclysmic collapse and depression in the state's housing markets and accompanying plunges in related industries such as finance, and construction-related manufacturing, wholesale trade, and retailing. Household wealth fell sharply owing to steep declines in housing prices and equity values, which further dampened consumer expenditures. Bank lending, an especially critical source of financing for smaller businesses, has been significantly limited by the global financial crisis.

Notwithstanding the above factors, there is also a strong sense (lack of data make confirmation difficult) that slowly unfolding structural changes have been occurring in Florida's economy. Structural changes represent long-term responses to both forces outside of the state and forces within the state. For example, global trade liberalization has contributed to the development and growth of Florida's international trade sector and in the process has helped to diversify the state's economy.³ Twenty years of generally robust population and economic growth have contributed

¹ “The Current Recession in Florida: Comparative Information and Data on the Worst Economic Downturn since the 1930s.” *Economic Commentary on the Florida Economy*, August, 2009, Number 32. <http://www.floridataxwatch.org/resources/pdf/eco32.pdf>.

² These indicators include the Federal Reserve Bank of Philadelphia's Index of Coincident Economic Indicators; data on employment growth, labor force growth, taxable sales growth, housing starts and the unemployment rate.

³ See, for example, "International Trade: A New Pillar of Florida's Economy?" *Economic Commentary on the Florida Economy*, Fall, 2009, Number 33. <http://www.floridataxwatch.org/resources/pdf/Eco33.pdf>

to a significantly higher level of residential real estate prices – even in the face of the current downturn - and Florida losing at least some of its edge as a low cost state in which to live.⁴

However, not all structural changes are beneficial and some have now evolved to the point where they are genuine threats to the state's economic future. Three such threats are clearly evident:

1. The on-going crisis in property and casualty insurance.
2. Rapidly rising property tax burdens on businesses and households.
3. Significant 'contingent liabilities' faced by all Floridians. Included among these contingent liabilities are those resulting from the undercapitalization of Citizen's insurance, Medicaid cost increases that continue to outstrip the inflation rate, escalating cost of prisons and incarceration and, on the local level, underfunded pension plans and retiree health care costs, and outstanding local government debt.

Addressing and rectifying these adverse, 'home grown' structural changes is vital to the state's long-term economic well being.

Foundations of Economic Growth

There is still much the economics profession does not know about why some states consistently experience healthier economic growth than others, and in the process provide greater economic opportunities to their citizens. Research to date has focused on five, obviously highly interrelated factors:

1. **Human Capital** – that is the education, skill, experience, drive and entrepreneurial spirit of its population.
2. **State and Local Fiscal Policies** – that is public sector institutions that effectively provide those limited services the private sector can not as effectively provide in an environment which fosters competitive markets and provides predictable taxation and spending policies.
3. **Clusters** - that is geographic concentrations of competing, complementary, or interdependent firms and industries that do business with each other and/or have common needs for talent, technology, and infrastructure.⁵

⁴ The ACCRA cost of living index for Florida relative to the U.S. shows Florida cost of living varying from 20 percent below to 68 percent above U.S. benchmarks.
<http://www.statehealthfacts.org/profileind.jsp?ind=600&cat=1&rgn=11>

⁵ Research has demonstrated that industry clusters promote economic development via innovation and product improvement. See, for example, Michael E. Porter, *The Competitive Advantage of Nations*. Cambridge, Ma., Harvard University Press, 1990.

4. **Migration** – that is an environment whose amenities are attractive to individual and business migrants with high levels of human and physical capital.
5. **Industrial Structure** – that is an existing mix of industries based on the state's comparative advantages but also a structure sufficiently flexibility and resilient to adapt to changing fundamental forces.

If the above five factors are, in fact, critical to a state's economic growth then state and local policies must focus on enhancements and improvements to them. The specific recommendations presented below are tied to these factors.

Specific Fiscal, Budget and Economic Recommendations

I. Human Capital Development

1. Increase Incentives and Investment in Science, Technology, Engineering and Mathematics (STEM) Education and Work Force Skills

In an increasingly competitive global economy so-called knowledge workers are vital to a state's economic growth potential. The prospects for nascent and emerging industry clusters in Florida, such as those related to life and environmental sciences, information technology and aviation and aerospace, depend importantly on knowledge workers in general and those in the STEM areas in particular.

States with the highest concentration of knowledge workers are also those with the highest per capita incomes. Research indicates Florida trails the national norms in its concentration of knowledge workers.⁶ Additional investments in the STEM fields should spur cluster development, higher paying jobs and a more robust economy. At the same time the state should require significant improvements in student educational achievement levels and high school graduation rates.

2. Increase State College Financial Aid for Long- Term Florida Residents

Florida may be experiencing long-term 'brain drains' where its best and brightest high school graduates attend college out-of-state, many of whom to never return, and where a sizable number of its post baccalaureate graduates leave the state owing to better career opportunities elsewhere.

⁶ See, for example, "Florida Advancing in the Knowledge Economy." *Economic Commentary on the Florida Economy*, June, 2005, Number 1.

<http://www.floridatxwatch.org/resources/pdf/FloridaInTheKnowledgeEconomyFinal52005Rosia.pdf>

To the degree the length of time a student has lived in Florida and attends a Florida college predicts whether or not they will live and work in Florida, college financial aid tied to length of residency may help stem Florida's brain drains.

II. State and Local Fiscal Policies

1. Implement an Electable (optional) Single Sales Factor Corporate Income Tax Base

Florida currently faces a rising competitive *disadvantage* compared to an expanding number of states that have adopted the single sales factor (SSF) apportionment formula corporate income tax in recent years – including states with which it most directly competes. Twenty of the forty five states which levy a corporate income tax now use the single sales factor base. In the last two years alone Colorado, California, Virginia and North Carolina have adopted the SSF.

Moreover, economic theory and empirical research increasingly point toward considerable gains in job formation, capital investment, and long-term economic growth from corporate income tax apportionment formulas that place greater weight on sales and less or no weight on property (capital) or payroll (jobs) in the state. Revenues are likely to increase over time due to the boost to long-term economic growth and the significant incentive to locate or expand a corporation's property and payroll (jobs) inside Florida.⁷

2. Immediately Have the Governor, Commissioner of Agriculture and Legislature Review All Statutes, Rules and Policies that Impede and Inhibit the Expansion of Florida Agra-Business

Rapid development in emerging economies around the globe has significantly and, in all likelihood, permanently increased the demand for a wide array of agricultural products in uses ranging from food for human consumption, to livestock feed to bio-fuels. Florida agra-business can increasingly meet these needs but statutes, rules and policies that inhibit its ability to do so must be lessened.

3. Encourage Bank Lending to Smaller Businesses by Allowing Private Equity Funds to Invest in Troubled Banks

Job losses in the current recession have been especially severe in smaller businesses (those with less than one hundred employees) owing in part to their inability to obtain working capital financing from commercial banks. Commercial banks, in turn, have understandably reigned in lending, including small business lending, owing to rising loan

⁷ More detail may be found in "Transforming Florida's Corporate Income Tax to Encourage Capital Formation and Job Creation." Florida TaxWatch Briefings, March, 2009.
<http://www.floridatxwatch.org/resources/pdf/03252009SingleSalesFactorCorporateIncomeTax.pdf>

losses and, in a growing number of cases, accompanying capital impairments. Many community and mid-sized banks have encountered insurmountable difficulties in raising new capital in order to expand small business lending and meet regulatory requirements, and banking regulators have seized an increasing number of such banks.

Fresh sources of capital would improve the ability of community and mid-sized banks to resume small business lending. Private equity funds, as a group, have both the financial resources and expertise to make investments in community and mid-sized banks that need capital injections. However, current federal and in some cases state regulations thwart such investments. Florida should review its statutes, rules and policies regarding private equity fund investments in commercial banks.

4. Amendment 4's (known as "Hometown Democracy") Severe Adverse Economic Effects Make It Undesirable Legislation

Amendment 4's envisioned re-structuring of property rights from private to public and the associated change in decision-making from the marketplace to the ballot box will likely have devastating, lasting effects on Florida's economy. Amendment 4, should it be enacted, will introduce a large and consistent bias against voter approval of new projects as has been demonstrated in similar situations. As a result, commercial and residential investments as well as business formations and expansions will diminish. Higher costs will emerge for approved commercial and residential investments as well as forming new businesses and expanding existing ones. Special interest groups might arise and be funded in attempts to convince a large number of people to vote for or against a given project. Funding special interest groups would further add to the cost of development. Moreover, permanent increases in the direct and indirect costs of elections will occur.

5. Replenish the State's Unemployment Insurance Compensation Fund without Burdening Employers Who Create Jobs

Tax increases on employers of up to an alarming *twelve fold* are being considered and, in some cases, implemented, to address shortfalls in the state's unemployment insurance compensation fund. Such increases would significantly raise the cost to employers of hiring additional workers and retaining existing ones. In short, it would destroy jobs at precisely the time more jobs are needed.

The legislature should explore all alternatives to job destroying tax increases to replenish the unemployment insurance compensation fund.

6. National Health Care Reform May Further Constrain the State's Budget

Florida currently expends approximately 25 percent of its annual budget on Medicaid, and if related health care costs are included, the budget allocation rises to roughly 31 percent. While the final details of national health care reform are not yet known, Florida

could face even larger health care outlays. Florida's Governor, legislature, and U.S. Senators and Congress-people must be cognizant of this threat to the state's budget and work to prevent it.

7. Examine Florida's Apportionment of Federal Stimulus Funding Allocated to the State's Transportation Infrastructure

It appears the state's use of federal stimulus dollars to support investments in transportation infrastructure has been relatively small, though such investments contribute to the state's long term economic vitality. The allocation of federal stimulus dollars between current operations and longer-term beneficial investments may need to be re-examined.

8. Ensure that the State's Airports, Seaports and Spaceports Remain Competitive by Removing Impediments to Capital Projects that Increase Capacity, Efficiency and Security

Florida's ports are vital infrastructure which supports tourism and visitors as well as international trade and commerce and economic clusters related to the marine industry. Ongoing capital investments are critical to the competitiveness of Florida's ports. Florida should review its statutes, rules and policies to ensure that they do not inhibit capital investments.

9. Ensure that Capital Investment in the Manufacturing Sector is Promoted and Encouraged

Florida provides only a partial exemption for manufacturing machinery and equipment purchases. Only new or expanding businesses are eligible for the tax incentive, and only if the capital investment creates at least a ten percent increase in productivity. In comparison, many neighboring states offer complete tax exemptions for all capital investment used in the manufacturing industry. It is imperative that manufacturing industries are encouraged to expand capital investment in the State of Florida to create jobs.⁸

10. Address the Sales Taxation of Internet/Electronic/Mail Order Commerce Sales

Electronic commerce purchases by Floridians are estimated to exceed \$11 billion per year, yet such sales are not subject to the state's sales tax. This loophole provides electronic sellers an undesirable, unfair and significant advantage compared to traditional

⁸ A complete analysis of manufacturing's contribution to Florida's economy may be found in "*Economic Impact of Florida's Manufacturing Sector*." Florida TaxWatch Special Report, March, 2009. <http://www.floridataxwatch.org/resources/pdf/03172009EconomicImpactAnalysisFloridasManufacturingSector.pdf>

brick and mortar retailers who employ more than 1 million Floridians. A Florida TaxWatch study estimates more than 100,000 jobs have been lost as a result.⁹ This study provides detailed, statutory solutions that will enhance job growth, increase tax receipts by considerable amounts and provide net benefits to all Florida taxpayers. The Governor and legislature need to address this loophole and the disadvantage traditional retailers face as a consequence.

11. Ensure State and Local Grants are Included in any Additional Federal Stimulus Funding, and Use Such Grants for Job Creation

State and local government grants from the federal sector could be used to fund either direct grants and/or temporary tax rebates for job creation. The grants/tax rebates could be targeted at specific sectors or businesses, such as smaller ones, that demonstrate a net workforce increase.

12. Evaluate Allocation of State Expenditures Between Consumption and Investment

State spending can be used to either support existing living standards (current consumption) or to improve future living standards (investment). The proper balance between these two is critical to the state's long-term economic performance. The Governor and legislature should evaluate trends in state spending to ensure a proper balance is being achieved.

13. Focus on Legitimate Functions of Government: Rent Seekers Need Not Apply

Though not confined to the state, Florida once again is attracting notoriety for a range of corruption scandals and frauds in both the public and private sectors. For example, South Florida is widely viewed – rightly or wrongly - as the Medicare fraud capital of the country. The image of the state is tarnished in the process and it is difficult to imagine that such blotches do not act as a non-trivial deterrent to the formation, expansion and relocation of legitimate enterprises.

In these regards, elected and appointed officials have responsibilities beyond their own narrow conduct, and beyond the creation and enforcement of laws directed at fraud and unethical behaviors. In particular, elected officials have a responsibility of utmost trust to structure the processes of state government such that the primary function of state government is not the redistribution of income and wealth (commonly known as providing economic rents).

⁹ "Out of State On-Line Shopping Cost Florida Thousands of Jobs." Florida TaxWatch Special Report, February, 2009.
<http://www.floridataxwatch.org/resources/pdf/02182009OutStateShoppingCostsFloridaThousandsJobs.pdf>

Governments have seemingly found an almost infinite number of ways to take resources from one group and distribute them to another. Taxing the more productive and distributing to the less productive has encouraged dependence and group enmity while discouraging the productive. Regulations which shield businesses from legitimate competition take from the consumer and discourage innovation and entrepreneurship.

Government can not stamp out those who seek economic rents, that is those who seek narrow gains from redistributive programs and policies. However, economic rents can not be obtained and sustained without the active participation and cooperation of government. The structure of government must be such that it is not an institution whose primary function is the provision of economic rents.

While the connections between fraudulent behaviors and government as a provider of economic rents may appear tenuous on the surface, if the state's most visible institution sticks strictly to its legitimate functions, then it is hard to see how this won't cascade throughout all segments of Florida.

III. Cluster Development

1. Evaluate Florida's Current Marketing Plan for Conventions, Visitors and Tourism and Implement Necessary Changes

Tourism remains one of our state's foundational clusters, but like all Florida industries it confronts increasingly intense global competition, including those from areas which may be viewed as relatively new competitors, such as Costa Rica and Panama. A new, rigorous, strategic assessment of Florida's comparative strengths, weaknesses, and threats, combined with a marketing plan and the resources to support it, will strengthen Florida's status as a highly desirable destination state.

2. Incentives for Incubators and the Commercialization of Scientific Breakthroughs

Public and private sector research institutes, such as universities, often serve as incubators for emerging clusters. Companies that seek to extend for commercial purposes scientific breakthroughs require land and facilities – among other things. The state's Innovation Fund and tax incentives may stimulate the location of such businesses and spur cluster development.

3. Review Framework for Recruitment of New Companies and Cluster Breakthroughs

The traditional 'beggar thy neighboring state' with tax breaks and subsidies as a primary economic development tool in enticing business re-location has, fortunately in Florida, been supplanted by the strategic thrust and initiatives of Enterprise Florida.

However, there may be (rare) occasions when it is less costly to "buy" the core of a new, low risk (a high likelihood of success) cluster than to build one from scratch. In those cases a partnership as witnessed with the relocation of Scripps Florida may be called for.

IV. Migration

1. Implement a Retirement Visa Program.

A retirement visa is a specialized immigration authority allowing foreign persons who meet certain requirements (usually related to age and assets) to retire in the U.S. and purchase homes while not entering the labor market. Florida TaxWatch research, in conjunction with the Florida Association of Realtors, indicates as many as 300,000 jobs could be created in the state over a ten year period if a retirement visa program were instituted.¹⁰

While we recognize the retirement visa issue is a federal one, Florida lawmakers should make it a high priority in partnership with lawmakers from other states who are aware of the benefits of the program.

Conclusion

We hope that these specific fiscal, budget, and economic recommendations, tied directly to four of the five foundations of growth discussed earlier, may lead to a consensus set of recommendation from the participants of the *Florida Jobs Summit* in Orlando, Florida on January 15, 2009.

Florida TaxWatch, the *Center for Competitive Florida at Florida TaxWatch*, and the *Florida Council of Economic Advisors at Florida TaxWatch* are pleased to offer their services to further examine – in more detail using, among other tools, econometric analysis to specifically quantify – the job creation and economic benefits of adopting these recommendations.

Florida TaxWatch again commends Florida Senate President-Designate Mike Haridopolos and Florida House Speaker-Designate Dean Cannon for convening the *Florida Job Summit*. We hope that this summit will spur Florida's economic recovery and growth – and we remain committed to working with all partners and taxpayers to improve Florida's economic well-being.

¹⁰ "Establishing a Retirement Visa Would Help Revive Florida's Vital Real Estate Industry." Florida Tax Watch Special Report, April, 2009.
<http://www.floridataxwatch.org/resources/pdf/04142009RetirementVisa.pdf>

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Mission of the Council of Economic Advisors

The mission of the Florida Council of Economic Advisors at Florida TaxWatch is to provide professional, non-partisan public policy advice and recommendations to all appropriate branches and units of Florida state government including the Executive, Legislative, and Cabinet branches in order to promote the maximum, long-term sustainable growth and development of the Florida economy.

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About Florida TaxWatch

Florida TaxWatch is a statewide, non-profit, non-partisan taxpayer research institute and government watchdog that over its 30-year history has become widely recognized as the watchdog of citizens' hard-earned tax dollars. Its mission is to provide the citizens of Florida and public officials with high quality, independent research and education on government revenues, expenditures, taxation, public policies, and programs, and to increase the productivity and accountability of Florida Government.

Florida TaxWatch's research recommends productivity enhancements and explains the statewide impact of economic and tax and spend policies and practices on citizens and businesses. Florida TaxWatch has worked diligently and effectively to help state government shape responsible fiscal and public policy that adds value and benefit to taxpayers.

This diligence has yielded impressive results: in its first two decades alone, policymakers and government employees implemented three-fourths of Florida TaxWatch's cost-saving recommendations, saving the taxpayers of Florida more than \$6.2 billion -- approximately \$1,067 in added value for every Florida family, according to an independent assessment by Florida State University.

Florida TaxWatch has a historical understanding of state government, public policy issues, and the battles fought in the past necessary to structure effective solutions for today and the future. It is the only statewide organization devoted entirely to Florida taxing and spending issues. Its research and recommendations are reported on regularly by the statewide news media.

Supported by voluntary, tax-deductible memberships and grants, Florida TaxWatch is open to any organization or individual interested in helping to make Florida competitive, healthy and economically prosperous by supporting a credible research effort that promotes constructive taxpayer improvements. Members, through their loyal support, help Florida TaxWatch bring about a more effective, responsive government that is accountable to the citizens it serves.

Florida TaxWatch is supported by all types of taxpayers -- homeowners, small businesses, large corporations, philanthropic foundations, professionals, associations, labor organizations, retirees -- simply stated, the taxpayers of Florida. The officers, Board of Trustees and members of Florida TaxWatch are respected leaders and citizens from across Florida, committed to improving the health and prosperity of Florida.

With your help, Florida TaxWatch will continue its diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer, who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and government agencies are more responsive and productive in the use of your hard-earned tax dollars.

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