

Termites in Florida's Basement: The Economic Impact of National Security Policy on Florida's Economy

As one of the Nation's most globally integrated states, Florida is a primary beneficiary of cross-border flows of goods, services, capital, information, and persons all of which have combined to make it a global economic powerhouse. With a gross state product (GSP) of \$594.5 billion (2004),¹ Florida's economic productivity exceeds that of all but a handful of nations. If an independent country, Florida's economy would rank as the 20th largest worldwide. Measuring per capita GSP, Florida would rank 11th globally, at \$34,173 per capita.

Florida's economic success is a result both of happenstance—its geographic positioning at the epicenter of the Americas—and successful implementation of visionary private and public sector strategies to reshape its economy from an agrarian, natural resource-based past to today's mix of leisure activity and cutting edge technologies that support innovation and investment in a global, service-based economy. Over the past several decades, Floridians have recognized and acted decisively to realize their competitive advantage.

An increasing body of largely anecdotal evidence, however, makes clear that Florida's economic wellbeing stands at great risk from the unintended consequences of national security policies and procedures imposed in reaction to terrorist attacks of September 11, 2001. Reacting to the national trauma inflicted on that day, Congress enacted an array of measures intended to safeguard against further terrorist attacks. These enactments include the U.S.A. Patriot Act, Maritime Transportation Act, Bioterrorism Act, Aviation and Transportation Security Act, and Enhanced Border Security and Visa Entry Reform Act.

Simultaneously, and to the same end, various agencies of government reacted with more zealous enforcement of existing policies and procedures. Now, nearly four years on, it is apparent that these well-intentioned measures have neglected to strike the appropriate balance between the interests of our physical security and our economic security. As a result, business and economic leaders from across Florida (and elsewhere around the Nation) increasingly express their concerns that the core strengths of our economy are being eroded by policies that disregard economic consequence.

¹ US Department of Commerce, Bureau of Economic Affairs.

While all Americans support effective measures to forestall repetition of terrorist attacks within our borders, there is increasing awareness that policies and procedures that inhibit legitimate economic activity weaken our Nation, thereby creating an environment that inadvertently advances the ultimate goal of terrorist masterminds which is to destroy the United States' global leadership. As one observer noted at a recent meeting of Florida's business leaders, these policies are the equivalent of "termites in the basement."

Surprisingly, no empirical analysis exists which measures the economic impact of these policies. As an entity dedicated to identifying arising trends and issues, informing the public's understanding of those matters, and advancing public policy solutions to the challenges and opportunities that confront Florida, the Center for a Competitive Florida at Florida TaxWatch has begun the process to fill this void. Working with business and political leaders in Florida and nationally, the Center is working to quantify the impact of recently imposed security measures and, in so doing, to achieve proper balance between our physical and economic security interests. Center researchers and interested parties have begun exploration of the foundation pillars of Florida's dynamic economy and have found interesting preliminary results detailed in the balance of this paper.

By most measures, *tourism and travel* are the leading components of the Florida economy. Nationally, tourism and travel directly represent a \$1.3 trillion dollar industry, generating in excess of \$100 billion annually in federal, state and local tax revenues.² International tourism, a (direct) \$100 + billion dollar per year industry nationally, is particularly important to Florida, as 1 of every 7 dollars spent in the U.S. by a foreign tourist is spent in the State.³

Convention and visitors bureaus, air ports-of-entry, and attractions report that foreign visitation from core Latin America/Caribbean markets is substantially and directly reduced because of exclusionary visa policies and practices that require in-person interviews of an entire travel party at a visa office of the U.S. embassy in the prospective visitor's country of origin (after as much as a five month wait for an appointment), payment up-front of a non-refundable application fees of \$300 per person, and unpredictable waits for decisions by consular officers regarding the suitability of an applicant for grant of a short-term tourist entry visa. Foreign tourists are a vital part of Florida's largest industry as they spend more and stay longer, on average, than domestic tourists. Economically speaking, according to the widely held view of experienced tourism industry officials, one foreign tourist is the equivalent of two domestic tourists.⁴

Advent of the anticipated Western Hemisphere Travel Initiative (WHTI) is expected by many analysts to complicate further the already difficult entry process and, increasingly, to undermine Florida's tourist economy. Not only is Florida an international tourist destination, it is the key point of embarkation for the highly lucrative cruise line industry. As part of the WHTI proposal, beginning in 2006, US citizens would be required to have a passport to re-enter the country from the non-US territories of the Caribbean. Only 15% of US citizens currently hold passports. American cruise passengers account for more than 10% of the total value of the Caribbean cruise

² Travel Industry Association of America website (www.tia.org).

³ Travel Industry Association of America, interview.

⁴ Greater Miami Chamber of Commerce & Florida International University, "The Impact of Post-9/11 Security Measures on Florida's International Business Community," October 2003, page 11, footnote 29.

industry.⁵ The feared destabilizing effect of the passport requirement on the economy of a region that has become so heavily dependent on tourism as its preponderant source of jobs and income would likely have significant consequences for political stability as well. Once again, as it has often in the past, Florida would be faced with mass migration to its shores. Based on past experience, a weakened Florida economy would be left to bear the burden of care for yet another wave of émigrés should political instability follow economic instability.

Given Florida's history of unremitting population growth, *real estate and construction* are vital contributors to the Florida economy. Recently, *The Economist* newsweekly reported that "one in three new homes in South Florida is sold to a foreigner."⁶ Statewide the percentage of foreign buyers of homes and condominiums is 15%.⁷ Given the recent relative weakness of the dollar against several foreign currencies, particularly the *euro*, which has enjoyed a swing of as much as 40%, this level of purchase activity should come as no surprise. Recent indicators show, however, that purchases of houses and condominiums have slowed.⁸ Whether this is occurring as a result of early deflation of a much-debated housing price "bubble," increased competition for climate-sensitive buyers in locations as diverse as Turkey, Mexico, South Africa, or Croatia,⁹ or as a result of exclusionary visa policies and application of intrusive financial reporting requirements of the U.S.A. Patriot Act, it is clear that extreme care should be taken to calibrate security and reporting requirements proportionally to the level of threat posed by foreign investors so that these restrictions do not exacerbate a market declining for a combination of causes. A depressed real estate and construction industry, dependent to an increasing degree on foreign buyers and labor, will have significant negative impact on Florida's overall economic wellbeing.

Exclusionary visa policies and practices have caused a substantial reduction in the number of foreign students studying in Florida's *public and private colleges and universities*.¹⁰ Nationally, foreign students studying in the U.S. represent a \$12 billion per year industry.¹¹ Foreign students pay the highest chargeable tuition rates and are required to take a full course load while enrolled. Decline in their enrollment directly impairs the financial bottom line of institutions of higher education while also putting upward pressure on the costs charged Florida resident students. Foreign student enrollment in Florida institutions declined by nearly 10% in the years from 2001-2004. At a 2004 level of 25,861, foreign students (and their dependents) made a net direct contribution to the Florida economy of \$584,605,000.¹² This figure does not consider the multiplier effect of their presence in Florida, but applying a very conservative multiplier of 2 results in a total contribution approaching \$1.2 billion. A less convenient, less predictable, and more expensive educational environment in the U.S., coupled with aggressive recruitment by European, Australian, Chinese, and Indian universities, will continue to deplete our institutions of higher education of this valuable resource.

⁵ *Financial Times*, June 6, 2005, page 5.

⁶ *The Economist*, August 20, 2006, page 26.

⁷ *Florida Trend*, October 2005, page 60.

⁸ *Financial Times*, July 16-17, 2005, page 3.

⁹ *Florida Trend*, *ibid*.

¹⁰ Greater Miami Chamber of Commerce & Florida International University, *ibid*, page 13, footnote 41.

¹¹ *ibid*, page 14.

¹² Institute for International Education, "Open Doors Report," various years and international offices of Florida's public and private universities and colleges.

Likewise, **research** is also hindered by these same visa policies. For example, the National High Magnetic Field Laboratory at Florida State University is a National Science Foundation-designated “national laboratory.” As a research facility, it is a global center for scientific conferences and for teams traveling from the far corners of the earth to conduct experiments utilizing the world’s most powerful magnets. This renowned research center normally expects to host as many as 1000 conference attendees and 500 foreign research teams annually. With the imposition of exclusionary visa entry restrictions, the Lab has experienced a decline of as much as 40% in international research interest as potential foreign visitors are unable to obtain reasonable access to the U.S. on a predictable timeframe.¹³ Their absence from the Tallahassee community (and the absence of researchers in other communities that are home to research institutions throughout Florida) has a clear and demonstrably negative impact on both the Florida-based “innovation economy” and the local hospitality industry. As a result of the high barrier that has been erected, students and researchers are choosing to take their business to other countries that are aggressively recruiting their presence.

Additionally, there is considerable anecdotal evidence that Florida-based businesses engaged in the sale of products that require **training** of purchasers in the proper use and maintenance of the product are experiencing loss of market share because of visa restrictions that are more onerous than those in other countries that market competitor products.

Health care of foreign patients for diagnostic, surgical, or treatment purposes is a \$6 billion per year industry nationwide.¹⁴ Florida health care providers (particularly in the central and southern parts of the State and at specialty clinics elsewhere across Florida) have cultivated a highly lucrative business meeting the health care needs of cash-paying patients who seek the highest standard of medical care. Foreign patients are often accompanied by family who may establish extended temporary residency while the patient is under physician care. This multiplies the beneficial economic impact of the care of foreign patients industry.¹⁵ Exclusionary visa policies and practices, including excessively long application processing times and a requirement that the patient may be asked to prove to U.S. Consular officials that the treatment sought is not available in the patient’s home country, have severely depressed this once-thriving, high-value industry. Health care facilities geared specifically to the linguistic needs and cultural expectations of foreign clients report substantially lower bed occupancy rates which, in turn, place upward pressure on the cost of services for Floridian patients.

Financial services and international banking has grown to become a \$3 billion per year industry in Florida, yet increasingly stringent “know your client” and due diligence rules, and the prospect that highly sensitive personal financial data will be shared by the U.S. government with police and intelligence services in countries that cannot assure its security (particularly in Latin America) have resulted in a flight of international banking business to Switzerland, the Cayman Islands, and other jurisdictions with less intrusive regulatory requirements.¹⁶ Correspondent banking services have been particularly hard hit meaning that small businesses otherwise unable to complete international transactions are placed at a greater disadvantage. Small exporters and importers have lost business. U.S.A. Patriot Act requirements, in effect, force bankers into the

¹³ Florida State University Office of Research, interview.

¹⁴ Enterprise Florida, “Discussion Paper on the Impact of Homeland Security Measures on International Business in the State of Florida (unpublished), March 2005, page 7.

¹⁵ Greater Miami Chamber of Commerce & Florida International University, *ibid*, page 13.

¹⁶ *ibid*, pages 9-10.

role of law enforcement officers, a role for which they are ill equipped. The compliance costs that bankers face cannot be readily passed along to customers in a highly competitive market operating on thin margins,¹⁷ and financial liability provisions of the Act could be ruinous to one or more financial institutions.

Once a magnet for *foreign direct investment (FDI)*, the United States now ranks among the three most difficult locations in the world to conduct business requiring staff relocation, ranking only behind China and Japan in this race to the bottom.¹⁸ Over the past several decades, Florida has reaped enormous benefit from FDI, not only because it offers a high-growth market, but also because of its geographic proximity and historic ease of access to the developing markets of the Caribbean and Latin America. Nationally, a record reversal in FDI (amounting to \$165 billion in the year ending April 2004)¹⁹ and Miami's more recent loss of status as the top choice among multinational corporate executives for Latin American operational headquarters²⁰ clearly reflects the detrimental effect of increased regulatory burden and exclusionary visa policies and procedures on this aspect of Florida's economy.

Regarding Florida's predominance as a hub for *global transportation and logistics*, new security mandates and increased freight clearance procedures have resulted in unparalleled cost increases, shipping bottlenecks, and overall erosion of the competitive advantage long enjoyed by Florida's unparalleled ports system. Law enforcement and security-related operational costs at Florida's 14 deepwater seaports increased nearly 400% between the 4th quarter of 2001 and the first quarter of 2005.²¹ Security costs at the Port of Miami are reported to have increased by 600% since September 11, 2001.²² Similar cost increases have been reported elsewhere among Florida's ports. Additionally, on average, it takes 1-2 days longer for cargo clearance at Florida's deepwater ports.²³ This is highly disruptive of supply chain operations and drives up costs to shippers, carriers, and customers. Florida businesses are particularly sensitive to disruption, and there is little relief in sight in the near-term, according to transportation interests.

New research contained in a soon-to-be released study commissioned by the Florida Ports Council reports the total of all net excess costs incurred for enhanced port security (capital and operating) for fiscal years 2001-2002 through 2004-2005 exceeded \$124 million. This amount is net of all federal and State reimbursements. These cost increases show no signs of reaching a plateau, as security costs are expected to increase between fiscal years 2005-2006 and 2010-2011 by a six year total of \$305.5 million.²⁴ This diversion of funds to enhanced security costs significantly impairs the ability of Florida's ports to make necessary capital improvements by reducing their bonding capacity.

Florida's bid to become home to the *Permanent Secretariat of the Free Trade Area of the Americas (FTAA)*, a determination that would have great statewide benefit, is very much at risk because of policies and procedures previously discussed. Simply put, if international travelers

¹⁷ Florida International Banker's Association, interview.

¹⁸ Enterprise Florida, *ibid*, page 3.

¹⁹ *Business Week Online*, August 17, 2004.

²⁰ Enterprise Florida, *ibid*, page 4.

²¹ *ibid*, page 5.

²² *ibid*, page 5.

²³ Greater Miami Chamber of Commerce & Florida International University, *ibid*, page 7.

²⁴ Florida Ports Council, "The Funding Capacity of Florida Seaports to Meet the FSTED 5-Year Capital Plan 2007-2011 and the Assessment of the Cost of Enhanced Security Since 9-11 (DRAFT) pages 3, 4 and 9.

cannot travel to Florida with relative ease, or if a perception grows among foreign travelers that they are not welcome in the U.S. (and, of course, Florida), the decision will be made to locate the FTAA Permanent Secretariat elsewhere. This decision will further erode Florida's long-claimed status as the "hub of the Americas."

All Americans agree to the importance of securing our lives and property against terrorist attacks mirroring those on September 11, 2001, and no public official wants to be the one who allows that next Mohamed Atta into our country. In our zeal to secure against such acts, however, we must not allow the security fence that we have erected to become a noose that strangles our economic dynamism.

Leaders in all economic sectors confronted by the unintended negative economic consequences of well-intentioned policies are right to call for balance between this Nation's physical and economic security interests.²⁵ This result will be achieved only upon the basis of sound economic analysis and a resolve on the part of business, community, and political leaders to assure carefully balanced public security policies.

About The Center for a Competitive Florida

The Florida TaxWatch Center for a Competitive Florida evaluates state government fiscal policies; researches economic, demographic and other trends that affect economic competitiveness; and makes policy recommendations that enhance Florida's ability to compete successfully to assure Florida's continued economic growth, security, and sustainability.

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²⁵ This call for balance was forcefully voiced at the August meeting of Enterprise Florida's Global Commerce Committee, chaired by Dr. Tony Villamil. There, panelists representing health care, education, and trade promotion spoke to a packed audience of the challenges confronting their business sectors. The lively dialogue that followed resulted in a decision by the Enterprise Florida Board of Directors to create a task force for the purpose of finding solutions to the serious problems articulated.

About Florida TaxWatch

Florida TaxWatch is a private, non-profit, non-partisan research institute that over its 25 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: since 1979, policy makers and government employees have 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.

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 to 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 that government agencies are more responsive and productive in the use of your hard-earned tax dollars.

The Florida TaxWatch Board of Trustees is responsible for the general direction and oversight of the research institute and safeguarding the independence of the organization's work. In his capacity as chief executive officer, the president is responsible for formulating and coordinating policies, projects, publications and selecting the professional staff. As an independent research institute and taxpayer watchdog, Florida TaxWatch does not accept money from Florida state and local governments. The research findings and recommendations of Florida TaxWatch do not necessarily reflect the view of its members, staff, distinguished Board of Trustees, or Executive Committee and are not influenced by the positions of the individuals or organizations who directly or indirectly support the research.

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