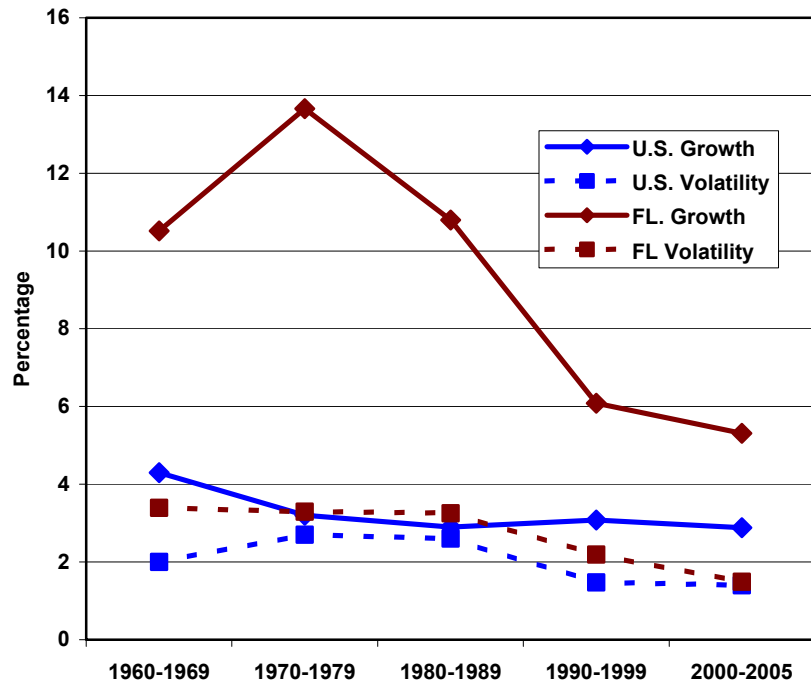


**The Less Risky Florida Economy**

**U.S. and Florida Average Annual Economic Growth and Volatility Rates (1960-2005) 1**



\*Click on this graph to view the data in table form.

**For the 45 year period (1960-2005), Average Annual U.S. Growth was 3.28% and Volatility was 2.23%, compared with Average Annual Florida Growth of 9.58% and Volatility of 4.04%.**

Florida's economy has become dramatically more stable, that is less volatile, in recent years. Research and data clearly demonstrate the heightened stability of the Florida economy. While the business cycle has not been repealed, economic downturns have become less frequent, less prolonged, and less severe. This emerging characteristic of Florida's economy stands in stark contrast to the once widely held view of an economy subject to rather extreme booms and busts, and has important benefits for Florida as well as implications for future economic development.

The greater stability of economic activity in Florida as well as in the United States is revealed in the table. It shows noticeable drops in the volatility of average economic growth rates for the U.S. and Florida during the past four decades. For Florida, the volatility of economic growth has fallen in every decade since the 1960s, with especially sizable declines occurring during the last 15 years. In the 1990s the volatility of Florida's economy was about 46 percent less than for the entire 1960 – 2005 time frame, and during the early part of the twenty-first century the volatility of the Florida economy was a remarkable 63 percent less than for the entire 1960 – 2005 time period.

Florida's economic stability has also improved relative to the U.S. economy as a whole. From 1960 – 1989, economic growth in Florida was close to 40 percent more volatile than in the rest of the nation. In the last 15 years that volatility dropped by more than one-half to about 18 percent and since 2000 has plunged to being only about 6 percent greater than for the U.S. as a whole. This is a stunning achievement for the Florida economy.

The causes of the greater stability in Florida's economy are not yet entirely clear. Enhanced stability in the U.S. economy, which Professors Watson and Stock argue is primarily attributable to improved national economic policies dating from the 1980s, is one likely source. Greater diversification of Florida's economy also goes hand-in-hand with greater economic stability. In this respect Florida's services and goods exporting sectors have grown rapidly in recent years, and combined now represent more than 25 percent of the state's economy. Innovations and restructurings in long-standing key sectors such as tourism, agriculture, and natural resource-based industries have boosted their competitiveness and contributed to Florida's stability. Finally, clearly and consistently applied state economic policies emphasizing fiscal discipline, education, investments in human and physical capital, innovation, and environmental stewardship have created an environment fostering the long-term investments and commitments that are vital for greater economic stability.

The benefits of Florida's greater economic stability are varied and substantial. More stable economies are less risky, making it easier for Florida businesses to attract qualified workers; making providers of physical and financial capital more interested in investing thereby aiding entrepreneurs and the state's roughly 450,000 businesses; and encouraging out-of-state businesses and organizations looking to do business with and in Florida. Fluctuations in tax revenues are also likely to be less severe, reducing one of the challenges in managing the state's public finances. The notable upgrade in the State of Florida's bond rating and the accompanying substantial sums that Florida taxpayers will save as a result is another benefit from the state's greater economic stability.

The tremendous gains in Florida's economic stability and the likely causes of these gains are too important to be ignored. History provides many examples of states and nations that were once economic beacons but are now struggling to revitalize their economies. So, public policy must continue to care about promoting fiscal discipline, economic growth, and a stable economic environment.

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1. The U.S. data are from James H. Stock and Mark W. Watson, "Has the Business Cycle Changed and Why?" National Bureau of Economic Research, 2002, updated by the author with data from 2002 – 2005. The Florida data are based on the author's research.

The U.S. data are the average and standard deviation (a common measure of volatility) of the four quarter growth in inflation-adjusted Real Gross Domestic Product from 1960 through the first quarter of 2005. As quarterly Real Gross State Product data are not available at the state level, the Florida data are the average and standard deviation of the four quarter growth in Real Personal Income for the same time period as the U.S. data.