FLORIDA'S COMPETITIVENESS FOR TALENT SUPPLY: PROJECTING THE ECONOMIC IMPACT OF TOLERANCE

FLORIDA

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1. State competitiveness in the global marketplace depends on the ability to attract highly productive talent supply. This study builds on 60 years of research by estimating the positive economic impact realized when American workers "vote with their feet" and move to states with public policies perceived as enhancing economic and personal freedoms.

2. Florida ranks 6th among states in economic freedom but 36th in personal freedom—two fundamental indicators linked to both attracting talent supply and driving economic growth. By enacting employee non-discrimination legislation and boosting its attractiveness to skilled and innovative labor by expanding personal freedom, Florida can boost its total economic output by $5.46 billion over the next 10 years linked to the creation of 35,759 new jobs.

3. The Sunshine State's current workforce gaps in key industry sectors is projected to grow. The expected increases in demand for highly productive labor will further challenge the state's ability to sustain economic growth and underscore the need to appeal to educated, skilled, and mobile labor.

4. By enhancing its competitiveness among states for educated and skilled workforce, the state's productivity (in terms of gross domestic product—GDP) is expected to add $3.46 billion to Florida's economy over a 10-year period.

5. Improving the state's ability to compete for highly productive labor segments attracted to economic and personal freedom, particularly Millennials and the Creative Class, could trigger economic activity over 10 years resulting in a $3.91 billion increase in personal income and $3.47 billion in disposable income.

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<u>Introduction</u>

States compete for highly productive talent supply in recognition of the sustained economic growth driven by the supply of an educated and skilled workforce. States spend billions through their education systems to feed demand for talent supply by nurturing the development of their residents. Similarly, states spend hundreds of millions in economic development incentives to attract businesses and the corresponding migration of talented labor seeking higher wages, career development, or improved quality of life. This report demonstrates the potential economic impact realized by shifts in Florida's labor migration patterns associated with improvements in relative attractiveness, particularly by improving economic and personal freedom.

Consistent with 60 years of research, this study builds upon the phenomenon of businesses and workers "voting with their feet."[1] That is, changes to state-wide policies associated with the protection and expansion of economic and personal freedom repeatedly have been shown to present both cost and benefit to state economies depending on the degree to which they repel or attract businesses and labor supply. First, an example of negative economic impact realized from adverse reaction to public policy is presented. The balance of this report establishes the expected positive economic impact associated with expanding economic and personal freedom, specifically the gains associated with modest improvements in Florida's perceived attractiveness attributed to future passing of employee non-discrimination legislation.

<u>North Carolina: Public Policy and Negative Economic Impact</u>

Reports of the negative economic impact experienced by North Carolina provide a recent example. When it passed legislation in March known as HB2, North Carolina law eliminated existing municipal non-discrimination protections for LGBTQ people and living wage ordinances. The law prevents such protections from being passed by cities in the future and ended the existing ability of people who have been discriminated against—including on the basis of race, religion, and sex—to sue in state court, undermining critical discrimination protections for all. According to Human Rights Campaign reports, the legislation puts $4.5 billion dollars in federal education funding alone at risk.

In addition to the withdrawal by high-profile artists who cancelled appearances in North Carolina in objection of HB2, three notable losses in economic activity underscore the negative costs corresponding to public policy seen as discriminatory and limiting economic and personal freedoms. In July, the NBA announced it would not be holding its annual All-Star game in Charlotte as planned. Estimates put the game's economic impact on cities above $100 million. Months earlier PayPal and Deutsche Bank made public their decisions not to locate previously announced expansions in North Carolina. The PayPal facility would have created 400 jobs paying more than $50,000 annually; Deutsche Bank's expansion of 250 new jobs promised average annual wages in excess of $85,000. Wake County's economic development organization reported

that 11 potential projects had been cancelled or suspended as a result of HB2 representing job creation totals ranging from 75 to 1,000 per project.

<u>Attracting Talent Supply and Boosting Economic Growth</u>

According to Florida's Department of Economic Opportunity labor market projections, the state is expected to fill 2.8 million job openings between 2015 and 2023. The high demand is accompanied by warnings of labor shortages in the Sunshine State. For example, according to the Florida Center for Nursing, there were more than 18,000 nursing vacancies as of June 2015 with expectations for the gap to grow.[2] The Florida Department of Education there were more than 6,000 vacant positions projected by the Florida Department of Education for the state's in K-12 system in 2014 – 2015 school year.[3]

A 2014 report, produced for a consortium of workforce stakeholders in Central Florida, underscored the availability of a skilled workforce as one of the most critical factors in economic development and linking businesses' expansion and relocation decisions to the talent supply. It also sounded alarms of a current and expanding talent gap in the region. A majority (61 percent) of companies reported difficulty with hiring and recruiting, with 55 percent reporting that "lack of experience" was a reason for not filling a position. Manufacturing companies reported the greatest difficulty (84 percent) filling positions, followed by Hospitality (83 percent), Health Care (79 percent), Government (65 percent) and Professional Services (61 percent). Forty percent reported an increase in training for new hires, interns and incumbent workers.[4]

Economic Impact of Highly Productive Workers

Projected shortages clearly reflect high demand for talent supply as the fuel for a prosperous economy. Competition for talent supply is not just a numbers game—that is, the are qualitative differences in the labor force state compete for most. A review of published research makes a compelling case for the connection between the quality of a state's workforce and economic growth.[5] Of particular interest is the understanding that not all workers contribute equally. Since 2002, Richard Florida and others have called attention to the characteristics of the Creative Class as a subset of workers whose creativity and innovativeness drive state and local economies. Research findings indicate that highly educated people working in creative occupations are the most relevant component in explaining the production efficiency at the heart of gross domestic product measures.[6] Further, the Creative Class "makes up around one third of the U.S. workforce but accounts for about half of all U.S. wages and salaries, earning an average of $70,000 per year."[7]

In this way, characteristics of the Creative Class mirror what research has revealed about the Millennial Generation—or those between the ages of 19 and 35 in 2016.[8] Millennials represent a larger influx of workers into the labor force than the post-WWII Baby Boomers. Both the Creative Class and Millennials are mobile. Millennials currently fit squarely in the three age groups long

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demonstrated to be the most mobile of the U.S. workforce: 18-24 (29.2% moved in prior year); 25-29 (33.3%), and 30-34 (21.8%).[9] In addition to their sheer size as a mobile group, the economic power of Millennials is notable. For example, Christopher Baughn and two colleagues at Boise State University assessed the impact of the young, single and college-educated segment of the population and found them more geographically mobile and contributing knowledge resources to the geographic areas where they choose to live. They concluded that "States that are attracting young, single, highly educated people are more entrepreneurially dynamic than would be indicated by overall levels of migration."[10]

In addition to revealing their importance to economic growth, research on the Creative Class and the Millennial Generation provides guidance on how to attract these high-value workers. The norms and expectations of the Creative Class place higher value on individuality, self-expression, and openness to difference versus the homogeneity and conformity that defined previous classes[11]—and generations. Both the Creative Class and Millennials respond to tolerance, and economic and personal freedoms, as desirable contexts for the creativity and synthesis necessary for the productivity associated with sustained economic growth.

In an evaluation of the impact of economic and personal freedoms on domestic migration, researchers Tate Watkins and Bruce Yandle[12] included Dr. Florida's "creativity index" as an index providing an overall measure of regional economic potential by combining three separate indices for technology, talent, and tolerance.[13] Milken Institute's Tech-Pole Index, patents per capita, and average annual patent growth comprise the technology index. Measures of the prevalence of Creative Class occupations make up the talent index. The tolerance index uses the presence of a vibrant LGBT community (Gay Index[14]) along with measures assessing racial diversity and integration of foreign-born persons.

Research has also demonstrated the importance of economic and personal freedoms in respect to migration patterns. Researchers such as Paul Althaus and Robert Preuhs expanded the treatment of amenities—from a narrow consideration of climate to quality of life and state policies—as factors impacting migration decisions.[15] Watkins and Yandle found the creativity index's impact on domestic migration to be highly significant and positive to the degree that a one basis point improvement in the creativity index leads to an increase of 262 domestic migrants.[16] Published by the Mercatus Center, the study evaluated the impact of three different indices on domestic migration and demonstrated the positive effect of freedoms grounded in an individual rights framework: "…individuals should be allowed to dispose of their lives, liberties, and property as they see fit, so long as they do not infringe on the rights of others."[17] Recall that the points of interest are not only increasing domestic migration but, in particular, the attraction of subsets of the workforce prone to higher economic contributions. Ronald Inglehart's research is among several independent studies establishing the link between personal freedom or what he calls "self-expression" as a primary feature of the new systems found to be associated with higher levels of GDP and economic growth.[18]

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Modeling the Economic Impact of Non-Discrimination Legislation in Florida

The above analysis suggests that policies protecting economic and personal freedoms contribute to a state's economic growth and prosperity through the mechanism of increasing tolerance for self-expression and attracting domestic migrants, especially the coveted Creative Class and Millennial generation. The size of the economic impact to be realized by shifts in migration patterns realized by improvements in Florida's perceived attractiveness can be modeled using REMI PI+ from Regional Economic Models, Inc. The REMI PI+ model was selected based on its strength in integrating multiple modeling methods to analyze policy inputs.[19] Those methods include input-output modeling, general equilibrium, econometrics, and economic geography.[20]

The REMI model provides a control forecast illustrating the expected development of the specified economic area over time. Modifications to the control or base scenario—such as assumptions of increased attractiveness due to state-wide policy changes protecting economic and personal freedoms—project estimates of the impacts on the state's economy. Three levels of improvements to Florida's attractiveness, specifically its non-pecuniary amenities,[21] were modeled: 0.5%, 0.75%, and 1.0%. Each variation of state attractiveness presents an alternative expectation of possible improvements to Florida's perceived attractiveness to potential domestic migrants. For simplicity, the results of the mid-range impact of 0.75% are reported and reflect the assumption that Florida's attractiveness as a potential relocation destination would increase by 0.75% as a result of expanded protections of economic and personal freedoms associated with the passing of employee non-discrimination legislation.

Results

Table A below illustrates projected economic outcomes using the REMI PI+ model across seven economic impact categories as defined in Exhibit A. Cumulative economic impact, modeled as the result of shifts in migration patterns resulting from a 0.75% improvement in Florida's amenity coefficient, is shown at 10 and 20 year spans following legislation assumed to take effect in 2018.

TABLE A: Projected Economic Impact at 0.75% Increase in State Attractiveness

10 Years	20 Years		
35,759	84,453	Total Jobs Created	
32,031	73,358	Private Non-Farm Employment	
85,678	330,492	Population Increase	
43,161	145,501	Labor Force Increase	
$3.459	$8.439	Gross Domestic Product	Billions Fixed (2009) Dollars
$3.911	$13.985	Personal Income	Billions of Current Dollars
$3.466	$12.571	Disposable Personal Income	Billions of Current Dollars

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The improvement to Florida's ability to attract domestic migrants is expected to create 35,759 new jobs in the first 10 years with an expected total of 84,453 after 20 years. An increase in personal income is expected reach $3.9 billion in the first 10 years and exceed $13.9 billion by 2038 from an influx of more than 145,501 to Florida's talent supply (labor force). Gains in Florida's gross domestic product are expected to reach more than $3.4 billion in 10 years and exceed $8.4 billion in 20 years.

Conclusions

States depend on the expansion of a quality workforce to sustain economic growth and prosperity. Two categories from within the national labor pool, the Creative Class and the Millennial Generation, are increasingly sought after by states seeking to augment their own labor supply. Among the traits shared by the Creative Class and Millennials is an affinity for economic and personal freedoms demonstrated by research to foster innovation and productivity gains contributing to economic growth.

This analysis modeled gains to Florida's economy based projected enhancements to the state's attractiveness realized as a result of passing employee non-discrimination legislation. Impact was projected across seven categories of economic performance using REMI PI+ from Regional Economic Models, Inc. The REMI PI+ model has earned the trust of public policy makers nation wide, including the Florida Department of Transportation and the Atlanta Regional Commission, for its unique integration of multiple approaches to economic impact modeling.

Results presented in this report expand on findings in peer-reviewed research showing the positive beneficial relationship between state policies designed to expand economic and personal freedoms, specifically in triggering potential economic impact in Florida, including 35,759 new jobs, $5.46 billion in additional economic output, and increases in personal income and disposable income of $3.91 billion and $3.47 billion, respectively. State competitiveness in the global marketplace depends on the ability to attract highly productive talent supply. By estimating the positive economic impact realized when American workers "vote with their feet," legislation such as employee non-discrimination protection reveals substantial economic reward to be realized by further enhancing Florida's reputation for leadership in economic and personal freedom.

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EXHIBIT A: Economic Impact Definitions

Total Employment comprises estimates of the number of jobs, full-time plus part-time, by place of work. Full-time and part-time jobs are counted at equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included.

Private Non-Farm Employment comprises estimates of the number of jobs, full-time plus part-time, by place of work for all industries except government and farm. Full-time and part-time jobs are counted at equal weight. Employees, sole proprietors, and active partners are included, but unpaid family workers and volunteers are not included.

Population reflects mid-year estimates of people, including survivors from the previous year, births, special populations, and three types of migrants (economic, international, and retired).

Labor Force represents the number of people in the labor force, i.e., employed or seeking work; calculated with participation rates by age cohort.

Gross Domestic Product (GDP) is the market value of goods and services produced by labor and property in the United States, regardless of nationality.

Personal Income is the income received by persons from all sources. It includes income received from participation in production as well as from government and business transfer payments. It is the sum of compensation of employees (received), supplements to wages and salaries, proprietors' income with inventory valuation adjustment (IVA) and capital consumption adjustment (CCAdj), rental income of persons with CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance.

FOOTNOTES

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