

My View from the *Tallahassee Democrat*

# David Denslow: Education's value will grow in Florida's new economy

DAVID A. DENSLow JR. • MY VIEW • MARCH 4, 2009

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The current economic recession is severe, particularly in Florida. Most of its consequences are painful. It would be unfortunate to suffer the pain without making changes that will enable us to emerge with an economy strengthened for the long haul.

Florida's economic downturn began well before the nation entered a recession, if the number of jobs is the criterion. From March 2007 through December 2008, we lost 287,000 jobs.

If forecasters are correct, the nation still has nearly a year of recession ahead. But Florida's recession is likely to last three months longer, because it will take that amount of time for retirees to sell their houses up North before moving here.

During this severe downturn, the structure of the state's economy is changing, and some of the changes will be permanent:

- The population growth rate over the next 20 years is projected to average about half of what it was over the past 20; that means a reduced role for industries related to growth, such as construction and real estate. They will remain important, but diminished, as a share of overall economic activity.
- There will be an acceleration of the long decline in the state's manufacturing jobs, including industries that feed directly into construction and those that process food crops.
- Jobs in retail trade will become a smaller share of the total, partly because Floridians won't be spending as much and partly because the Internet makes information about products readily available, reducing the need for in-store guidance.
- Finance is becoming a smaller share of the economy, nationally and in Florida.

When we finally emerge from the recession, tourism will remain a major sector, and there will be more jobs providing services to retirees. The baby boomers, born from 1946 to 1964, are hitting their 60s. Many will retire and move to Florida once they sell their houses in the Midwest and Northeast.

As the economy recovers, will Florida diversify toward more high-value-added workers?

Florida has only 68 percent of its expected share of the nation's managers, 64 percent of its scientists and 74 percent of its engineers. As a high-amenity state, Florida has the potential to attract more and more professionals. The quality of life will continue to persuade affluent retirees to locate here.

For Florida's potential to be realized, most important is improving education. At the postsecondary level, the crucial issue is whether universities and the Legislature will reach agreement on funding. Will the Legislature grant universities the right to raise tuition substantially and deal creatively with the constraints imposed by the Bright Futures and Florida Prepaid programs? Will universities find a way to assure the Legislature that they will use additional funds to create smaller classes, hire more advisers, boost graduation rates and increase need-based scholarships? This will require trust and political courage, but it is certainly feasible.

The economic value of higher education to a state has been confirmed by recent empirical analyses. Typical is a July 2008 report by Jaison Abel and Todd Gabe of the Federal Reserve Bank of New York. They estimated the economic effect of having one more college graduate in a state's work force. Applying their results to Florida, I find that having one more college graduate working in Florida would lift the state's output by \$120,000 a year. At first this seems unreasonable, because a college graduate generates only \$40,000 in additional output. The extra \$80,000 results from the boost a college graduate gives to other workers with whom he works and the capital (equipment and structures) they use. In the language of economics, college workers have strong positive externalities.

This effect will be multiplied if we attract more high-value-added workers from other states. One of the most important amenities enabling states to attract and keep more educated professionals is excellent K-12 schools. But improving primary and secondary schools may be more challenging than raising the quality of higher education.

If education can be both reformed and adequately funded, many of the students emerging from the system should remain in Florida, creating a pool of talented workers who will attract their peers from other states. These workers will want to increase their own productivity by working with proficient teams, further boosting the supply of high-value-added workers.

To attract and retain businesses, the regulatory and legal environments must provide adequate protection for workers and customers without being capricious or overbearing. Courts must be properly funded and judges well-

paid. Too much of Florida's tax burden has been shifted from households to businesses. There should be a rebalancing so that the businesses, especially those that export goods and services, pay only their fair share of taxes.

Just as the housing boom came to an end, so will the recession. Emerging from it with a stronger and more balanced economy will not simply happen. Reforming and funding education and attracting and keeping businesses that employ high-value-added workers are the critical components.

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