Office of Tourism, Trade, and Economic Development
Annual Economic Summit
December 20, 2001

Pam Dana: Good afternoon everyone and thank you for taking time out of your busy schedules today to join us at this Economic Summit. This Economic Summit is an annual event. It's hosted by the Office of Tourism, Trade, and Economic Development, and normally we devote it to looking at local, national, and global economic trends and issues. I've chosen to utilize this year's economic summit, though, to bring together the state's top economists and business leaders to continue discussions on our economic status and some recommendations, possibly, for a quick economic recovery. This meeting will include an update on our economic trends, as well as several brief presentations from some area experts. We will then proceed into a panel discussion led by Governor Bush, and we will end promptly at 2 p.m. Can I please ask everyone to go around the room and make a brief self-introduction. We'll start with you, Charlie.

Charlie Ohlinger, Executive Director, Florida Council of 100
Steve Mayberry, Senior Vice President for Business Retention and Recruitment, Enterprise Florida
Marshall Heard, Chairman of the Florida Aviation and Aerospace Alliance
Tom McGurk, Director of the Agency for Workforce Innovation
Scott Brown, Chief Economist, Raymond James (Council of Economic Advisors)
Manuel Lasaga, Council of Economic Advisors and StratInfo
Steve Morrell, Council of Economic Advisors and Professor of Economics and Finance at Barry University
Randy Holcombe, Council of Economic Advisors, Professor of Economics, Florida State University
Tony Villamil, Chairman of the Council of Economic Advisors
Jeb Bush, Governor of the best state in the country
Al Hoffman, Chairman of the Florida Council of 100 and CEO of WCI Communities, and resident of the best state in the country
Gary Morse, Developer of the Villages Retirement Community
Bill Dickens, Council of Economic Advisors, Economist, Florida Public Service Commission
Don Calabro, President of Florida Tax Watch and Al Hoffman's Partner in Crime
Rick Harper, Council of Economic Advisors, Director of University of West Florida's Haas Center for Business Research
Russell Chuderewicz, Council of Economic Advisors, Florida International University
Bud Nocera, Chief Operating Officer, VISIT FLORIDA
Rick McAllister, President of Florida Retail Federation
Curtis Austin, President of Workforce Florida
Pam Dana, Director of Tourism, Trade, and Economic Development
Susan McManus, Council of Economic Advisors, Professor of Government at University of South Florida

I'm very pleased that we have with us today both the Chairman of the Council of Economic Advisors, Dr. Tony Villamil, and also the Chairman of the Florida Council of 100, Al Hoffman. Thank you both, and your membership, for your continued support and input on economic matters in the state. I'd also like to thank Governor Bush for taking time from his schedule to join us today. Each year that we hold this summit the Governor has been here, and we appreciate you, Governor. As the Director of the Office of Tourism, Trade and Economic Development, I cannot emphasize enough the strong and great leadership and tough decision-making that you have shown in these trying economic times. As economists, economic developers, and business leaders, we believe that you are doing the right thing to stimulate our economy and for that we are very thankful. And if I can, I'd like to ask you to open up.

Governor Bush: Thank you, Pam. Thank you all for coming up to Tallahassee to talk about something that is of primary importance to our state. Around here, the budget really matters a lot, and state government's a big deal because this is the capital and a lot of people depend on state government working efficiently and well. And during these tough times, governments have to respond like Florida's state has and have to adjust the budget, and we have to defer spending on things that may not be as important as other priorities. And we have just completed what hopefully will be, at least going into the foreseeable future, the last time we'll have to do it this fiscal year through a special session. It's interesting, I follow what's going on in the rest of the country because, obviously, the country's in a recession and if there's some good ideas that emerge in other states, we'd like to try to steal them. Around here we deal with the issue which we were confronted with, which was: How do we adjust our budget down by $1.3 billion when we're about halfway through the year? We accomplished that, I think, in a very thoughtful way, in that we cut enough deferring obligations – we deferred spending that hadn't started. We used the adequate reserves that have been built up over the last four or five years, so as to get through this difficult time. We did it in a way that pushed through funding for our schools. This system continues to grow this fiscal year, even after the adjustments downward, maintaining our commitment to the highest priority in the state. We did it, as well, without having to make major reductions, or any reductions really, in the programs related to the most vulnerable in our society, programs that people depend on. So we've accomplished our task, but that's really not the whole commission, just to balance the budget, that's important, that's our constitutional duty. But it seems to me that what's more important is how do we find ways to develop policies quickly and on a long-term basis to stimulate our economy to have sustained economic growth. Ultimately, Florida's families do better when there's a growing economy ,and Florida's government does better when there's a growing economy as well. There's less demands placed on our government and, more importantly, we have the ability to project that into the future and continue to fund our priorities.

Since September 11, thanks to the help of a lot of people in this room, we have, I think, responded quickly and efficiently on behalf of Floridians that have been hit by tough times, particularly in the travel and aviation industry. And there's more to do, there's no question about that, but I wanted to remind you that we have really been working hard as a team. It's nice to see government at all levels work as a team, and during these adverse times we've done just that. The legislature, based on our recommendations, did some immediate things to help us jumpstart our economy. Perhaps the most dramatic over the next six months will be the Economic Stimulus Package that was passed. Some $900+ million of construction of schools, community colleges, universities and roads that would not have started prior to June 30th now will be. Our work bank for the Department of Transportation actually will increase this year by 40% because of that. The legislature granted authority to the department to design bills that will accelerate the investment in our infrastructure to create jobs. In addition to that, lower interest rates made it possible for us to expand construction, particularly in renovation. For the last three years, we've been recommending significant amounts of money be put into deferred maintenance for our universities and community colleges, rather than spending more money on buildings. The priority should've been on improving what we have, and that's not as sexy to be honest with you.

Now, we have a chance to undo that by using this money for deferred maintenance, which will be the quickest way, actually, to get it out into the community and create jobs.

I'm really pleased the legislature also supported the additional $20 million of money on a one-time basis for VISIT FLORIDA. When you combine that with the leverage that Bud, your folks, are working on the local communities, as well as the private sector, that $20 million investment in advertising and promotion will yield, I'm sure we'll hear, a significantly higher number than that at a time when it is critical. We are now at the point in a couple of weeks where the visitor numbers in our state traditionally jump up, and for the next four months there's a sustained high level of visitation to our state. It's critical that we in a focused, targeted way make sure that people stimulate that visitation. The plan, I think, is a good one in that people know Florida, we have a high-name use, to use political terminology. What they now need to know is that we also are a value-driven place. If they come, they're going to get a hell of a deal. And I'm excited about the plan that Bud's team has been developing.

In addition to that the lottery has recasted its programs too. In the last three years, they've developed a pretty innovative strategy to partner with entities such as Key West, as well as Universal, IBM, I believe, is one of their partners – or one of the computer companies. You win a lottery ticket or buy a lottery ticket and you get a chance at winning a computer. These are the kinds of things to enhance the value of the proposition. Not being a lottery purchaser myself, I'm constantly amazed at the fact that 2.5 billion of those critters are sold each year, and so you have to constantly upgrade how you go about that, and they're going to spend $9 million in the very near future for in-state travel. So you'll see these scratch-off games. All of them will be related or tied into FLAUSA, visit Florida, visit the website, it'll drive people to the website and lottery participants will also get discounts. And that's one of the bright spots, actually, of our visitation industry has been in-state travel is significantly up, and we want to sustain that over a period of time.

And then, the thing that we're particularly proud of, in addition to the stimulus package that the legislature came up with, is the Workforce Florida and Agency for Workforce Innovation's efforts to, in a very entrepreneurial fashion, tailor programs for displaced workers. This is perhaps the most critical assignment we have in state government right now is to make sure that people are given the chance to provide for their families. We had a dramatic increase in unemployment and unemployment compensation claims after September 11. The good news is, I'm sure Tony will talk about this, is that it seems to have subsided. The unemployment compensation claims are going down at a pretty good pace. Unemployment numbers look better after the most recent period compared to October and September. So, we're on the right track. There are a whole lot of people hurting and the workforce effort has been, I think, exemplary. Operation Paycheck now, actually it's been hailed by the leader of the free world which gave it a nice endorsement, and it's being looked at by other states now as a creative way to deal with transition, whether it's a downturn in the economy or just the natural transition of a dynamic world. We have a lot of talented people that work in industries that were hurt temporarily and some that might be hurt over a long haul just given the nature of how economies work. We have not given them credit for their life experiences. So to go get re-trained in this dynamic world in which we live requires going back to school, taking coursework that may not be particularly relevant to someone who has twenty years' experience as a machinist in the aviation field that could be transferred to some other part of the economy pretty quick. So Operation Paycheck, for the first time, gives a credit, if you will, assesses in our One Stop Centers what qualities, what experience these workers have and gives them the fastest track possible to go back to school and get an AS Degree or a Certificate Degree or even a four-year degree to be able to reintroduce themselves back into the marketplace. And in addition to that, they receive the benefits that the

Agency for Workforce Innovation provides and our workforce departments across the state provide. That kind of approach was developed at warp speed, and sometimes we get frustrated at the pace of government, at least I do. I'm impatient by nature, but, man it gets slow sometimes by the time we respond. This is not one of those cases. The workforce system that we created is much more entrepreneurial, much faster to respond to challenges. I wish you all would've been with us in Orlando when we went to the One Stop Center and heard the testimony given by men and women, who had every right to be angry and upset and concerned about their families' future, were thanking people for how quick and compassionate people responded.

So we're going to stay the course. This is not the time to be raising taxes, as some have suggested, in fact, the interesting part of the budget debate of how to adjust the budget downward was the only alternative that people of the opposing philosophy had was to raise taxes. And I just scratch my head in wonderment about how they think that would help generate revenues on a long-term basis when it would curtail economic activity and would hurt the people we're trying to serve. We're not in the tax-raising business, we're in the business of providing support to allow the market, the market economy to work as quickly as possible.

I'll close this by saying, reminding people that we were leading the nation in job growth prior to September 11. Florida was a job engine, the likes of which many states envy, and we probably were disproportionately hurt most immediately after September 11 because of the fact that we're a peninsula, we're removed from much of the country, the air travel here is very important, our aviation business is a huge industry in our state. All of that combined to temporarily knock us for a loop. But, I get a sense, and I really certainly want to stop and get y'all's opinion about this, but I get a sense that we're on the rebound and that we have the potential in the very near future to be leading the nation again in job growth. That's our hope and that objective is the highest priority in our administration.

Thank you all for coming and I look forward to hearing what you have to say. Tony?

Tony Villamil: Thank you Governor very much for your leadership on behalf of our state. That's a sentiment not only of mine, but of my colleagues as well. A few days after the tragic events of 9/11, the Governor called me at home very early morning and said, "Round up the team, we need to discuss the issues that are impacting our economy". And he came and we met in record time a few days just after 9/11 and we started discussing with him, the Governor asking questions in terms of: Wwhat can we do in terms of economic stimulus? What can we do to cushion the impact on the state of Florida?

I just want to reiterate two or three points that we made at that time on September 18th, a week after those events when we met with the whole team of the Council of Economic Advisors. First we told the Governor, and we agree, that Florida is a strong and structurally sound economy with an improving business climate. The impact of 9/11 was not made in Florida. It was an external shock, a tragedy that affected the fundamentally sound U.S. economy and the fundamentally sound Florida economy, a shock to the system. But Florida was more than proportionately impacted because we are a state that's not only leading the nation, as the Governor mentioned, in payroll and employment growth, but also we're a state where the free movement of people and goods quick to market is very important given our visitor industry and international trade and other sectors of the economy. So, the impact on an otherwise sound economy was quite significant, at least, in the difficult moments in September and part of October. The 9/11 shocks,

not only for Florida, for all states in the union and for the global economy, reinforced what was already a slowing U.S. and global economy. In fact the National Bureau of Economic Research, as all of you know, said that the economy forecast, in 20-20 hindsight, the economy was in a recession since March of 2001. In reality, the peak in employment growth and the peak in the U.S. and Florida was somewhere in the middle of the year 2000. Again, those are cyclical short-term events and not structural long-term. In addition, we discussed with the Governor at the time, and, Governor, thank you for your leadership in the legislature in implementing quickly what has become a model for rest of the nation – the economic stimulus package. We told the Governor to accelerate targeting infrastructure spending and that has been done. We also discussed the issues related to the judicious use of part of the reserve fund and that was done working with the legislature. We also told the Governor, we need to, and obviously he knew that, we need to slow down the growth in spending. We have had many good years in Florida, our tax system generates revenues, which renders economic growth. But the key, like the Governor said, is to stimulate economic growth and get those revenues increasing again. And we told the Governor that we need to slow down the growth in Florida's spending from projected levels. We're talking about slowing down spending growth, we're not talking about actual negative cuts. That doesn't mean, obviously, that there aren't impacts that are felt on people, but at the same time, we had many, many good years in the state of Florida and we're talking about slowing down or flattening down the slope of the curve of increases in spending. Then we also told the Governor with our colleagues from the international sector, Manny Lasaga is here today, we told the Governor that it was important to support Trade Promotion Authority for the President of the United States. Market opening is very important for the state of Florida. Immediately, the Governor, Pam and the whole team, a letter was drafted and went to the Florida delegation in support of FAST TRACK by the Trade Promotion Authority to create a free trade area of the Americas and to continue liberalizing services and exports which are critical to the state. That was passed in the House only by one vote, but the interesting thing, Governor, is the Florida Delegation and the majority, this time, supported Trade Promotion Authority. So we are, in the state of Florida, in a very good position to eventually bid for the permanent secretariat in the free trade area of the Americas in 2005.

Again, we all said fundamentally to avoid any changes in state policies that are long-term in nature because the economy will bounce back. There's a significant resiliency in our economy. The problems of our state were not made in Florida ,and we reiterated that to the Governor. Since September 11, since our meeting on the 18th of September, actually, with the Governor and the CEA, we have seen from the input we get from council members the numbers we've received, we have seen stabilization and modest improvement in the hardest hit sector -- in the visitor-related industries and in the aviation-related. So since September and the shock of that external impact, we have seen stabilization in modest improvements, and I'm sure a lot of this we'll talk about and I'm sure some of you will in various sectors that have been impacted. Which makes the point that this economy is sound. Also, as the Governor mentioned, the unemployment claims hit another high compared to 2000. A lot of this is cyclical in nature, but the unemployment claims since September, the increase in unemployment claims since September just went down. Obviously they're higher than a year ago.

And then, something that is not discussed often when I talk to my colleagues, many areas in Florida and many sectors of Florida are continuing to do well in creating jobs. Today we announced, for example, the November numbers of the Agency for Workforce Innovation, Tom McGurk is here and the whole team, we found that the service sector in November of this year

compared to November of last year services employment increased by 4.3%. So services up 4.3% November 2001. And that's really one of the key areas of our economy that we want to make sure we don't tax and we don't provide an impact that would decrease the growth of payroll employment in this sector of the economy. That's my own personal opinion...

Steve Morrell…shared by his colleagues on the Council.
Governor Bush: we'll have a chance to probably talk about that...
Tony Villamil: we will discuss this …

So business services are growing, defense-related activities are growing. Housing, because we are an intra-sensitive economy is going well, and people want to come to Florida to live and work. Again, fundamentally a sound economy is a good place to live and work. Aerospace and technology-related activities to security, security-related software, is also growing and I know that the Governor has a very active program with the federal government trying to bring in some investments in technologies that would include, which would be good to our airports in Florida to increase the so-called castle factor which is important to our state. So we depend, significantly, on the free movement of people and goods through our borders and our economy. There's a pronounced difference in regional economic performance. In our travels and talking with council members, part of North Florida, from Jacksonville to Pensacola, many of them say: What recession? The drive-in tourism market, the stay-in-state market is doing well. North Florida has typical defense-related activities. Jacksonville is seeing a big increase in projects and investment at this time. Tampa/St. Pete, like the Governor mentioned, and Clearwater metropolitan statistical area leads the nation in favorable employment growth. However, there are other parts of the state that have suffered, so I don't want to minimize or be Polly-anish with my Council of Economic Advisors' colleagues because we do have issues that we need to address. But at the same time, the sky is not falling and we should avoid policies that would make the sky fall on a long-term basis.

Let me just finalize by throwing some questions, Governor, for your consideration and the Council of Economic Advisors and the business leadership here for economic development. The first one, and again, it's a question that we will discuss later in the meeting today is the strength and the timing of the U.S. Economic Recovery. In Florida we depend on external markets as does the rest of the U.S. on the international market, and we need to discuss and research through the year and try to find out when and what would be the strength of that recovery. The timing of that is critical. Through all economic conditions are also critical to the state of Florida and the key trading partnership for many of them are in recession, so we need to discuss that and get input on that over time. Third, many of my colleagues on the Council of Economic Advisors have serious questions and concerns about over, and, again, they're more questions over the current tax reform at the state level. First, we question the timing. We are in the middle of an economic recession and we don't want to add uncertainty to the business climate and investment positions by discussing a program at a time when there's a significant amount of economic uncertainty. And so I think it's critical, the timing issue is quite critical because companies that maybe want to relocate to Florida may consider, “Well I don’t know if I’m going to be taxed or not if I invest here.” So I think it’s very important, the timing question of this tax reform. Two, is what I call the dynamic impacts of any tax reform on jobs, economic growth and the business climate. The best form of tax policy, and Randy Holcombe can tell you, is to promote economic growth and to create revenues via economic growth and job creation. That’s what creates state fiscal revenues. Third, at the CEA’s first meeting, Randy Holcombe gave his presentation and

we discussed, and based on principals of sound taxation, we all decided that the best policy is to continue to lower the tax burden and to continue to improve the business climate, but that there’s no reason to do radical surgery on the tax system of Florida. Florida’s tax system generates revenues when there is economic growth in the state. Again, that’s a question we need to address now and in the long-term.

Fourth, finally, another issue and it’s the long-term productivity of stranded costs impacts of the U.S. and Florida of the necessary war on terror. We depend on quick to market and movement of people and to the extent that there are security costs in the business community and there’re explicits and implicits an executive has to spend, or any of us, tourists have to spend more time in the airports more than usual, that impacts, obviously, the economy, it impacts the ability of people to travel. And there is an implicit cost, as well as explicit cost of added security, especially in the areas that exist with international trade and international tourism. There are a number of laws in immigration and foreign deposit reporting that are a concern with the international banking community of Florida. If you look at demographics the problem of workforce skills and workforce scarcities here with us, nothing has changed. We do have a cyclical downturn but a year or two from now, we’re going to be talking about again dealing with workers, where are the workers, we need to bring in workers from other parts of the world. If our immigration laws are not allowing that to happen, we’re going to have a problem with a supply of labor in the U.S. So we need to research that from the Council of Economic Advisors’ point of view.

So let me just summarize by saying that we have a full plate of issues that our Council of Economic Advisors will volunteer and provide advice in the coming year. And, finally from my point of view let’s analyze and implement policies on the causality, to solve the causality of problems, not the effects of the problems, starting from the fact that we do have a sound fundamental state and we have a good future of influence as long as we don’t overreact with making deep structural policy changes that we may regret later.

Governor Bush: Thank you, Tony.

Pam Dana: Thank you, Tony. We’ll take up those questions during the discussion that will be led by the Governor. Right now I’m going to ask for Bud Nocera to give us a very brief update on the Tourism Industry to be followed by several area experts. Again, brevity is important.

Bud Nocera: And brief it will be. Thank you Dr. Dana. Let me begin by saying I remember in reading broadcast history back in the 30s, 40s, and 50s there was a CBS radio network commentator by the name of H. V. Kaltenborn who began each of his evening broadcasts with the phrase, “There is good news tonight.” And, indeed, I think there is good news, and I can begin my portion of this program by saying, “There is good news this afternoon.” The good news is that we are seeing enplanements improving, certainly an improvement in October over

September, and we are hearing from the airlines that they're even more improved in the last couple of days that the airlines are bringing back staff that they had furloughed. However, I need to also say that still we don't have the lift into Florida that we had a year ago and still we are operating at levels that are lower than a year ago, but the good news is that we are seeing improvement from the standpoint of enplanements and deplanements in the state. Attractions attendance certainly has improved in October and November. We're hearing from the Attractions Association that they are seeing a recovery. It appears that attractions recovery is

exceeding the recovery from our hotels and motels, which implies that Florida residents are indeed heeding the advertising campaigns that we and the industry and the PSAs that Governor Bush did to implore them to get out and see Florida and indeed Floridians are traveling around the state. However, again, adding the caveat that even attraction attendance is still soft compared to where we were a year ago, but we are seeing that positive forward motion on the attendance.

Last week in Naples we held meetings of the Florida Commission on Tourism and our VISIT FLORIDA Board of Directors and clearly what we heard there could be described as guarded optimism. Reservations are now coming in well for the South Florida peak season, which begins now in late January and really goes through Easter week. The phones are ringing again and there is anecdotal evidence that tourism is returning and the bookings are getting better and better. While the number of visitors are on the increase, I need to point out that to do this, many of the hotels and attractions have had to offer lower rates. Price matters in this day and age. A major shift that has occurred in the consumer mindsets over the last few months is now they are much more driven to deals and bargains and values. So even with good visitation on the upswing, the spending we're seeing appears to be much lower than last year. No doubt this is going to continue for awhile and no doubt that this is going to continue to impact our tourism businesses, strictly from a cash flow standpoint and for meeting their budgets and also, obviously, it may have an affect over the next few months on our tax revenues as well.

VISIT FLORIDA recently conducted some focus groups in our major points of origin in the northern states and also here in Florida. Let me just go through some of the results that we found from these focus groups. One is that American consumers are indeed value and price sensitive. It's recession-driven, they expect a great deal and now the consumers are willing to wait until right before they travel to get the deal, to make the booking, to look for the best deal that's out there. Sun destination vacation motivators are remaining constant. That indeed is very good news. There is still a need by our consumers for relaxing in the sun, there is a need to be with family, there is a need to be pampered, and to get to some place that is quiet and placid. There are also some new motivators. Motivators to go somewhere they perceive as being safe and secure and to travel someplace close to home, someplace where they won't be, as they put it, "stranded". We see what we call defiant optimism, the attitude of "I'm not going to let the terrorists change my life". And that is clearly something that comes forward in our focus groups. But the biggest change of all is the perception that every destination is on sale right now. We also learned that our Visit Your Own Backyard TV spots are extremely well-received. We learned that they play as well in the midwest and the northeast as they do in our own state. So the good news is that we're going to take up that and you're going to see those spots on a national basis.

The good news is that Florida is well-positioned because of consumer familiarity with the state, because of our accessibility, because of the comfort level that people have with Florida. The fact that it's a domestic destination and that people just don't have the issue of worrying about being stranded in this state. But even better news is that in recent weeks, the Florida tourism industry has really witnessed this incredible, wonderful outreach of assistance from a number of governmental bodies and entities and I won't repeat what the Governor has said, but it really began last September and early October with the Governor's visit to the Florida Commission on Tourism, quickly followed up by a trip that was made up to Boston and then the same day to Chicago, meeting with tour operators and travel agents to encourage them to get their clients back in the air and back to Florida and that was so well received by the people that were in

attendance. In these ensuing weeks, we have seen the Governor's PSA take hold, we have seen Enterprise Florida and the economic development entities within the state offer programs to unemployed travel industry workers, we have seen the Florida Film Commission working to offer special rates at Florida hotels to the film industry. The Florida Sports Foundation bringing to the table a special offer that allowed us something we've never been able to do before and that is to have a VISIT FLORIDA Bowl Game, which is the Tangerine Bowl, which is tonight at 8:00. Lt. Governor Brogan will be tossing the coin and we're going to be doing …

Governor Bush: Who's playing?

Bud Nocera: a good job. It's Pittsburgh and NC State (North Carolina State)

We're going to have eight national spots on that and our budget would never have been able to afford it, but the Florida Sports Foundation really brought this offer to the table and it's been great. We got a bargain basement rate for a name sponsorship in the Tangerine Bowl and all of the promotions that go with that. And we're working with all of the other bowls in Florida and so far we've provided in excess of $800,000 in promotions and advertising to try to ensure that all of the bowls in Florida are going to have good attendance in the next few weeks. And, as the Governor said, the Florida lottery has really stepped up to the plate with its $9 million program that launches in the new year and every ticket in that lottery campaign is a winning ticket in the fact that every ticket will offer consumers the ability to get discounts at tourism industry businesses. And the Department of Agriculture has provided us with almost $600,000 in promotion and I was going to use the term grocery stores, but I'm being told that dates me, "supermarkets" across the eastern states. And, finally, probably one of the most wonderful things that's happened in the last several weeks is the National Tour Association Convention. This is a major industry trade show and convention that takes place each year. It is those of us that sell destinations and states and tourism attractions and hotels meeting with and selling to the tour operators of the United States. And the keynote speaker at the opening luncheon was the Governor's mother, and I have to tell you Governor, she did an incredible job of selling Florida at that luncheon. When you see her over the holidays, please hug her for the tourism industry of Florida and tell her "thank you" because it was great.

Governor Bush: You don't know how hard it is to keep her on script.

Bud Nocera: And let me close just by saying that really the work of the Office of the Governor, Dr. Dana and the legislature to provide us with the $20 million in economic recovery funds has just been overwhelming and wonderful. We are currently matching these dollars to the tourism industry and bringing in their dollars for marketing campaigns that will begin very shortly and go all the way through April and continue into June. To date we've matched about $12.5 million of the $20 million with $18 million from the tourism industry, so it's more than a one-to-one match and we are currently working with 55 tourism entities: airlines, attractions, destinations, and tourism companies from around the state and putting together marketing programs that are going to, as the Governor said earlier, hit the airwaves and hit the printed media as we move into our peak season. So this is a very welcome program, it is going to be, we believe, a very effective program and it will have a positive impact for the tourism economy of Florida.

So in closing, let me say this is all great news and certainly the tourism industry, VISIT FLORIDA and the Florida Commission of Tourism wants to thank the Governor and the Legislature and our sister public/private organizations and, indeed, the tourism industry. We're all working together and we are well on our way to getting the state economy back on track.

Pam Dana: Thank you, Bud. Marshall, can you give us an update on aviation?

Marshall Heard: We're certainly stable in the near term, we're seeing recovery, we're actually seeing certain segments of the aviation industry has improved markedly. However, we face a very uncertain future and I want to give you just a little bit of background, so you can understand some of the concerns we have. Bud talked about the number of enplanements. To put that in perspective, we have the third largest number of enplanements in the U.S., the state of Florida does. We enplane 110 million people a year, 50% of all tourists arrive in the state by air. Those enplanements are down; they are recovering, but they are still down about 20%. That's a healthy number when you do the linkage with tourism. There are 20 commercial airports in the state, and I'd like you to remember that, and there are 110 general aviation airports that handle traffic that comes to and from the state also on business and vacation. In addition to that 110 million people that come by commercial air, 9 million people a year arrive by general aviation, which generally comes as a surprise to people.

We have some concerns, and the reason I gave you those numbers is to put the concerns in perspective. We're faced with possible new regulation and new legislation both. There is a new government agency called the Transportation Security Agency that's being formed right now and, as some of you know, will take over the responsibility for security associated with all forms of transportation. In addition to that, we're seeing other federal regulations and federal pieces of law. There is a new Aviation Security Act, for example, and I'm going to give you a couple of examples of what it does to us. We've even seen some of the municipalities are now getting into the act. Two local municipalities have informed their airports that they may do no touch-and-go landing operations, except between 9 and 5, Monday through Friday. There are 220 flight schools in this state. When you tell them that you can't do touch-and-goes except from 9 to 5, it rules out night landing qualifications, it rules out early morning flights, and it rules out the weekends. So I mean, just a simple thing like that ripples through the economy pretty dramatically. Increased costs have become a serious consideration. Most of those will be driven by regulation and legislation. If we see some of the new safety and security provisions that are being talked about, the cost to the airplane operators and the cost to the airport managers is going to skyrocket. And some of the things that are being talked about, and some are now law, for example, at commercial airports there is to be 100% explosive checking of all bags within one year from now. That sounds fine, I mean, it affects 20 airports here in the state, it could affect another 110 that handle passenger traffic as well, but let me remind you that those devices cost about $1 million apiece. They are limited in the number of bags they can handle per hour, so major airports like Miami and Orlando have to have tens of these devices. They weigh between 6,000 and 16,000 pounds, and they take up 2,000-3,000 square feet of floor space. And it's constructed floor space for this purpose, so you're looking at huge impacts if those kinds of things really come into being. The manufacturer of this equipment has the ability to build 600 of them a year, and the national estimate is that they need 22,000 of them. So, we're seeing knee-jerk legislation and regulation being enacted that people haven't thought through, and that's at the federal level. Our concern is that….

Governor Bush: I noticed that Steve Mayberry wrote down… (there's laughter)…he's on the job and he's writing it down to make sure we go visit them. It sounds like a good prospect for the state.

Steve Mayberry: You got some time next week, Governor?

Marshall: In addition to that, we're seeing suggestions that airports will have to have screening all the way around the perimeter, they'll have to have electronic gate access for all their employees, they'll have to do background checks on all their employees, they will physically have to shut down their runways when the airport's not in operation, which means that they have to go out and park trucks and vehicles on the runway so that you can't land on them. We're being told you're going to have to have a physical way to disable your airplane, so that somebody can't come out and hop in it and take off in it. I mean all these things are just mind-boggling. The background checks that are being talked about are just horrendous. We're being told that somebody who wants to come out and spend $50 and take a Discovery of Flight Operation for one hour in a Cessna has to have an FBI background check. So I mean these kinds of things just carried to extreme will be horrendous for us.

The passenger market is not back, it is coming back, but there seems to be a change in the pattern, and it's affecting the business model of airplanes and let me tell you a little bit about it. Typically now you're asked to arrive two hours early for a flight. If you add these 20 commercial airports are scattered around the state, people, generally speaking, drive from their home, park, and if you haven't parked at a major airport lately you'll discover that's not really fun either, walk to the terminal, check your bags in, have to be there two hours early, so they've consumed an hour to an hour and a half getting to the airport, parking, getting your bags in, then they've got a two hour wait. I've discovered you want to take a book when you go to the airport now, because sometimes you're through in 15 minutes, sometimes you're there the whole two hours. And they're going to do this on the other end of the trip as well. So they're losing 3-4 hours on each end of the trip. There's a recent study that says that a lot of people are simply going to fly, or going to drive instead of flying. Add to that the low-cost airlines rely on quick turnaround. The airplane comes in, unloads, puts a new crew on, puts the people on, the food, and leaves again. And they can't do that; they're simply not being able to turn the planes around. So the business model for the low cost airlines is being affected. The fractional ownership charters and leases are changing dramatically. Businessmen now are discovering that charters and leases are more convenient and safer. You can go point-to-point to thousands of airports, instead of hundreds, and I got solicited the other day to buy part ownership in an airplane and my first reaction was “no”. It turns out that, for a one-time cost of $80,000, I can get a six-place jet airplane for $1300 an hour. It doesn’t take too much arithmetic to figure out if you’ve got more than 2 or 3 travelers, that that’s a good deal.

And the last thing I’ll mentioned to be concerned about, and it’s another sleeper, we’re having trouble getting loans for the aviation industry right now. They simply aren’t being granted. But the other real surprise is that insurance is skyrocketing. Our premiums are up 50% to 100%. A lot of companies simply are simply not going to write the insurance under the circumstances. And I don’t believe we’ve heard the last of that one. So I’ll stop there.

Pam Dana: Thank you very much, Mr. Heard. You also have some handouts that I will ensure that everyone on this panel has access to. I’d like to ask Mr. McAllister to please give us an update on the retail situation.

Rick McAllister: Thank you, Dr. Dana. These are, indeed, interesting times we are living through and the retail sector of our economy is no less interesting than all the rest. As I’m sure you know, consumer spending drives the Gross Domestic Product of this country and, indeed of Florida and for most of 2001 it drove what little growth there was for the U.S. economy. And then when the event happened in September, consumer confidence hit a little bit of a cheek and sales dropped to the bottom of the bucket and our overall economy dropped. In the beginning of the year, retail experts were predicting 4-5% growth in consumer spending in retail. That was down, because as you all know, we were experiencing a somewhat slow economy in the beginning of the year. With the event and, quite frankly, some awfully warm weather, which had the effect of retail sales like you wouldn’t believe, sweaters, coats, etc, even in Florida, it has an enormous impact on sales, but now, maybe we’ll sell some sweaters.

Governor Bush: Bud doesn’t like that.

Rick: Sorry, we’ve got to move that inventory somehow. We were predicting probably a 2 ½ - 3 ½ % growth, even after the event and even after all of the continued problems we were having. The interesting thing about the retail sector is that it is very diverse and we’re seeing, even through the Thanksgiving sales period and all through this week, is that you can pick within that retail sector and see different things happening. The discount type retailers are having real nice sales. They’re slowing down a bit now, but we’re talking down around the 1-2% increased levels, where they had been 7-8% up until a week or so ago, we’re not quite sure what that’s all about. The grocery/supermarket chains, and my members, by the way, are all the household names that you are familiar with, nationally and in the state of Florida. Supermarket sales have been up 6-7 %, even through this period, which is a fairly nice increase for that particular area. Furniture stores, in general, are down a couple of points from where they were last year. Specialty stores are probably the hardest hit, and particularly specialty stores that are higher-end specialty stores are the hardest hit. Drugstores, our members, again, are household names, are probably one of the most growth industries in the retail sector in the last few years, typically double digit growth from year to year are expecting somewhere around a 1% increase in Florida this year. It’s predicted, even through mid-summer to be 5-7%.

I guess on the positive side, our projections for the first and second quarter, we're going to make it through this period alright, we're worried about inventory, we're worried about what's going to happen. You're all retail experts, you shop just like I do, you know if you've been to any store lately, that the after-Christmas sales are happening today in an attempt to move this inventory out. So that really is an attempt to move that inventory and I hope that works. But, in general we're expecting a 2-3% growth over the next six months and I hope that all this positive talk that I'm hearing will double that number, but at this point, we're saying somewhere between 2-3%. Thanks.

Pam Dana: Thank you, Mr. McAllister. Steve Mayberry, can you give us an update on other industries important to this state and, perhaps, business locations.

Steve Mayberry: I will do it, and everybody has in their packages, some handouts inside this folder. I thought I'd blend some data on results in Florida in the last couple of years with some industry feedback we've gotten from surveying companies in the last several weeks. You'll see on the first page of my handout there, that announced projects, I've take the first five months of the last three fiscal years and prepared them for you. Those are announced projects, economic development projects, that are typically manufacturing, corporate headquarters, backroom financial service centers, customer service centers, those kind of companies that produce a service or product in Florida and then would sell it to a market outside of the state and bring revenue back in the state. You can see that in '99/'00 and '00/'01, which were both banner years for economic development in the state of Florida, the first five months we had about 12,600 jobs and about $1.3 billion in capital investment. Last fiscal year that jumped up to 18,000 jobs and about $1.3, $1.4 billion in capital investment. The first five months of this year, as to be expected, we've been in a slowdown in the disaster-related events 9/11, 10,300 jobs $430 million capital investment, still good numbers historically for Florida, but not so well compared to the last two years for Florida. The totals for the last two years are at the bottom of that page. Another way to look at that is announced projects by months, and I've portrayed that graphically for you in a couple of different ways so that you can kind of get a picture of what's happening. The following page is projects open for a month and it'll kind of give you a feel of the pipeline of projects coming through. These projects that were announced last year and the year before, they're presently gearing up their employment, they're employing people today as they gear up the projects and the pipeline that we'll announce this year and next year, they'll be bringing in those employees a year from now. So you see in the first five months of this year we opened 101 projects, compared with last year we had opened 134, about that time the previous year, 141. There was decided fallout on the front end of the pipeline.

Quickly, by sector, Marshall talked about aviation and aerospace. Simulation, we surveyed the companies in September, shortly after the events of the 11th and the industry indicated there's pretty much no direct impact on them and, by the way, simulation industry in Florida employs about 24,000 people, a little over 200 companies, very high wage industry, $60,000 – $70,000 average salary is typical. So they didn't see a lot of direct impact to their industry. They do see, on a positive side, more venture capital showing interest, particularly in those portions of their industry serving military and law enforcement. Last month, we had the IITSEC trade show – I know you don't like acronyms, Governor, but IITSEC is Interservice Industry Training Simulation and Educational Conference, but it's a trade show.

Governor Bush: They should have an acronym.

Steve: At that show we noticed there were a few overall leads, but the quality of the tenor was very upbeat in the industry, they're going to continue to grow, they're going to continue to grow in Florida, provided we retain the military procurement centers which we have in our state and we have positioned ourselves well to keep those centers in Florida, we've established a National Center for Simulation. Biomedical technology, as we define it, being the medical device manufacturers and biotech, pretty much unaffected by the events of 9/11, but they're definitely feeling some recession rate pressure. Medical device manufacturing, overall they see their industry sectors good, but some growth we've got some significant industry in that sector in Pinellas south county. Biotech is small in Florida, it's growing, it's got great potential. We need to progress in some of the commercialization problems associated with getting our university research to market, breaking down some of those barriers to collaboration. On a positive note,

venture capital money is moving into this and will help us grow in this area. The IT sector, I'll just touch, on a couple of the subsectors and semiconductor industry over 20,000 employees in Florida. Currently that industry is in the worst downturn in the history with 30% off of last year. The Semiconductor Industry Association predicts a turnaround this year. We were at their conference last month in California, sponsored at part of their annual dinner they gave our their official forecast for next year, which was to turnaround and have some modest growth. Those are the same group of optimists that had projected growth for this year, so we're not so sure about that, the stock market analysts don't agree with that. But we do think that there's some potential turnaround, in particular niches that are important to Florida, one being light-emitting diodes, Royal Technologies being the leader in that sector and some of the defense-related chips being built in Brevard County. Teitronix has got 37,000 employees directly or indirectly working for the fiber optics portion of that sector is down to the laser products showing some good growth. The Teitronix trade show coming up next month in California and we'll have a better handle on that. Mr. Robinson's plastics industry is feeling the pressures of the recession, some of the diversified companies are doing okay, some are doing poorly, some are doing well the bright spots there, again, are medical device components, the plastic manufacturers, the containers and packaging for medical devices. As you would expect, those that have kept pace with technology advances in this sector, that have modernized their plants and equipment, are doing pretty well.

The last page is a breakdown of results by sector in the first five months of each of the last fiscal years. Don't read a lot into that, that's a fairly narrow slice, but I thought that would be of some interest to you. In closing, I'd just like to say again, this year obviously won't be a banner year for us in economic development projects as the last two years, the pipeline of new projects is off, but recently we've seen some very positive and encouraging signs. There are a few things that we could do legislatively to help, including getting workers' compensation rates down, in manufacturing, we're the highest in the nation and presently that doesn't send a very good signal for us and that doesn't cost any money. Approving the incentive modifications, Governor, you so eloquently talked about before the Legislature, those designed to stimulate the industry right now approving perhaps a Team Florida marketing fund request, a very aggressive program that could use a few more marketing dollars into marketing the state of Florida as a good place. As the Governor said, not raising taxes is a good thing to do at this particular time and we really appreciate that. We don't want to send that type of bad signal. Alabama's doing that right now, they're in special session, we've been following that and getting reports on that everyday. They're looking like they're going to raise taxes to wealth generating industry in that state. The Team Florida, the team approach, and you're the leader of that team, is working very well and we appreciate very much your personal involvement. Keep it up. It's very important to us.

Pam Dana: Thank you, Steve. Thank you to the other area experts for your input. Governor, I'd like to turn it over to you to lead a discussion, perhaps on the questions that Chairman Villamil brought up earlier.

Governor Bush: I think we'll go there first, since the economists haven't spoken, we'll put them on the spot and see if we can get a quick estimation of when you think the national economy and the state economy will rebound. Last time that we gathered, there was an estimation of the start of the third quarter. Three months later, are we still looking at that time frame? Have things improved or have things gotten worse? Does someone want to lead it off? Economists love this when they have to be on record.

Steve Morrell: Scott and I will talk on that, and maybe Manual on the international part of it. As Tony mentioned, Governor, and as you well know obviously, the state is a long peninsula, but not an island. And in terms of the U.S. economy, I think we did in mid-September mention to you third quarter of 2002 looks about the time we'll hit bottom and maybe start recovering. In my perspective, nothing has changed since then. I prepared a little handout on five keys to the recovery and just briefly go through a couple of those points. As you were mentioning earlier, there are some of the elements in place for an economic rebound, but not all. And as a result of that, I think the contraction nationally is likely to last until at least the middle of 2002. The cumulative decline in the economy will be in the neighborhood of 2%, unemployment could peak in the 71/2% range, that's about 11 millions workers. There are five things that we are following closely, to give us a good sense of when the economy's likely to hit bottom and start to improve. Just to very quickly go through those with you.

One key is the end of the falloff of business capital spending. It's been a major drag on the economy. We think new technologies, lower equipment prices, lower interest rates, faster economic appreciation will all eventually stimulate business capital spending, but not really in force until 2003. The cost side of business making investment is looking better; the return side yet hasn't picked up. The critical element here would be some proper fiscal stimulus; good proper incentives for investment and equipment investment and that's where Washington can take an ever greater lead. A second element, maybe a little more long-term in nature, is as we heard earlier, there is some global excess capacity in some key industries: steel, telecom, some segments of IT, air transportation, motor vehicles, etc. If we're going to continue to see pressures on prices and profits in those key local sectors, we're going to continue to see consolidations, mergers, acquisitions, bankruptcies, a general outflow of resources. And what we need there in the way of policy are policies that increase resource flexibility. So resources can go to where they're going to create jobs and create wealth.

The third factor, very quickly, is the economic ramifications of the terrorist attacks of 9/11. I think the short-term ramifications are diminishing, Governor, they still are somewhat more heavily concentrated as we heard in airlines and tourism-related industry. The critical element here has been the leadership we've had from people like yourself, people like the President, that and the progress in the war on terrorism are critical to reducing concerns that won't dampen out overnight, reducing the residual anxieties. Tony mentioned earlier and it is important to be looking long-term. There have been some necessary short-term government responses but at appropriate times. What happened a month or two ago to the federal sector needs to give way to programs that (a) provide security, and (b) increase productivity at the same time. We think that's critical especially looking out beyond the next year or so.

The fourth factors are our monetary and fiscal policies. We have had all year long now, for the last 12 months, massive stimulus to the economy by the federal reserve. It hasn't yet had significant effect. We don't really expect it until the spring, that's a little bit longer than normal, especially given the size of it. The overnight inter-bank borrowing rate was 6 ½ % this time last year; it's 1 ¾% now. The supply of money in the economy has grown by over 10% in the last 12 months. It's primarily getting from back to date are business and household debt re-financings, which will help their cash flow and its also moving into financial asset pricing. The general effect on total spending has been muted until now. Monetary fiscal policy will see a time lapse, at least a year is what we typically say. We're about a year into it and we're hoping to start seeing some more stimulus and the effects of the stimulus beginning in 2002. Longer term

obviously policies that promote entrepreneurship, investments, saving, work, technological progress that demonstrated country after country, time period after time period.

Lastly the financial markets, we have had until recently a sharp plunge in equity values, lost about $4 trillion there. Corporate profits have been declining for the last year. Those declines in corporate profits and equity values are affecting business and consumer spending. We've had some significant drops, as we just mentioned, in short-term interest rates; long-term rates haven't fallen as much. Interest rates differentials between low and high risk, there's more risk in the economy. Real interest rates adjusted for inflation are really low. Corporate profit, the outlook doesn't look good right now. Optimism requires moral courage and I think we're all optimists. Interest rates, though they've backed up recently, I don't think there's going to be any sustained rise until the recovery is well in place. We need policies that continue to improve the efficiency of our capital market.

Lastly, Governor, before we turn it over to Scott, one thing I did want to say, that a key to the recovery are the perceptions and confidence businesses have and we as consumers have. The financial markets may be signaling to us that things are looking better. I mention, and it sounds a little perverse, but treasury bonds yields have been backing up for the last two or three weeks. Some of it's the supply phenomena, but some of it is in a sense that people are saying, "well, we're looking for a decent 2002 and a good 2003. So that's not a bad sign. Equity markets have been rising since roughly two weeks after they re-opened September 17th. The Dow was shut down. The leadership we've been getting, from the White House, from your office, Governor, is important and critical. Maybe in ways we, as economists, can't fully appreciate, but it does have that important affect on our confidence and our perceptions, and it's something we applaud you for doing, we applaud the President for doing and we look forward to more. Scott?

Scott Brown: (Dr. Brown's microphone was not functioning properly; thus, he provided notes of his comments.)

The current national economic slowdown can be characterized as a correction to over-investment and the build-up in excess productive capacity in 1999 and early 2000, particularly in information technology, which had been a fast-growing area of the Florida economy. Since Mid-2000, the U.S. has exhibited substantial and widespread weakness in the manufacturing sector, which is under-represented in Florida relative to the rest of the country. The overall global economic slowdown hasn't helped. There were some signs that the manufacturing sector was nearing a bottom prior to September 11. The trend in new orders for durable goods was beginning to flatten out, after having fallen sharply over the several preceding months. The terrorist attack was a major set-back, but the manufacturing data are again hinting that a bottom may be close at hand, which is not the same as a recovery.

Corporate profits have fallen sharply in 2001. Firms have resorted to layoffs to boost earnings. The deterioration in labor market conditions has restrained household income growth and should limit consumer spending growth in early 2002. Much of this process seems yet to have been worked through completely.

The economic outlook has a number of positive elements. Time may be the biggest factor. Global economic slowdowns do not last forever. The U.S. has undergone a substantial reduction in inventories – GDP growth will be boosted when inventories merely stop falling. Lower energy prices have added to consumer purchasing power. If consumers are spending less on gasoline, they have more to spend on other things. The Federal Reserve cut short-term interest rates 11 times in 2001 – while this has substantially reduced CD income for retirees, auto and home sales have been support significantly by lower interest rates. There's some question about whether we'll see a package of further fiscal stimulus, tax cuts and/or additional spending. Going into 2002, there will be an additional $38 billion from the 2001 tax cut package and $62 billion in defense, emergency relief, and airport security.

The outlook also has several risks. There is what we might call "link risk" – unlike past recessions, the major global economies are all on the same page. The U.S. won't be able to export its way out of recession. Further global weakness could dampen a recovery in the U.S. We are still seeing a very high degree of risk avoidance on the part of firms. A high level of uncertainty breeds business paralysis, as firms will be reluctant to expand or take risk. High levels of consumer and business debt are a worry – debt service burdens do not appear to be particularly troublesome, but any significant shocks to the economy could make debt levels a much bigger issue. Another risk is that the financial markets may not be fully reflecting the deterioration in credit quality and earnings. Another market setback could further dampen consumer spending through the wealth effect.

In short, the national economic outlook shows a high degree of uncertainty and significant downside risks, as evidenced by the unusually wide spread among professional forecasters. I'd expect a relatively sluggish recovery in the first half of 2002, moving to a sustainable pace of growth, a 3.0% to 3.5% annual rate of GDP growth by the end of the year.

The September 11 terrorist attack had wide-reaching consequences, with significant effects in trade and travel seen all the way to Europe and Asia. Most areas of the U.S. economy appear to be recovering relatively quickly, except for air travel, tourism, and lodging – sectors near and dear to the Florida economy. Tourism is recovering, but relatively slowly. In addition, the terrorist attack have also increased company operating costs and risk premiums, shifted civilian resources to the military, and decreased the level, but not necessarily the rate of growth, of labor productivity. The hope is that the terrorist attack will not restrain globalization, an area of increased importance for the Florida economy.

Governor Bush: Manuel, would you like to talk about the international aspect.

Manuel Lasaga: Two comments, and I have a handout – I'll skim over it very quickly. Undoubtedly, as my colleagues have said, the U.S. recession and the events of September 11 have aggravated the global economic slowdown. If we look forward, there is one issue that we have to follow that could complicate monetary policy, and that is that the U.S. recession with unsustainable deficits to the U.S. could weaken our dollar, and I think we have to watch that. For Florida the recession in Europe and Latin America will affect all international trade and tourism for the year 2002. I think that we'll see, in terms of Florida exports, the decline will be more noticeable in 2002 than it has been this year as far as the value of our exports. In terms of the U.S., I think there's more reason to hope that the U.S. recovery will come up as we think it will next year because the U.S. is and will continue to be the locomotive of the world economy. A weaker dollar could have an advantage to us in terms of helping our markets in Europe. It will not necessarily help our markets in Latin America, because they're pretty much tied to the dollar and what's affecting them is the dollars in their pockets, not the value of the dollar. When we

look at Latin America, just in terms of a principal economy of our physical trading partners, we see Argentina currently in economic crisis, I think that a lone standing position of devaluation is seeming to become a reality. Argentina now has to cope with the devaluation of external restructuring, a banking system crisis, and more recession. Brazil's currency has been under pressure recently and we've noticed the impact on Florida trade. However, Brazil has had a very good track record; amazingly they're still growing this year. Chile continues to have decent growth. So, you see, Argentina is really an isolated case. Columbia, of course, continues to struggle with internal violence. Ecuador is one economy that is dollar wise; they are doing well so far, but mostly because of high oil prices. Mexico, our partner in NAFTA, has been significantly weakened by the U.S. Every month, the Mexican government reduces the projected growth for next year. They're waiting for it to get worse before it gets better. Nevertheless, Mexico does stand out because of its membership in NAFTA. Mexico, because of that membership has become a less risky economy from other economies in the region. Peru, the one that we'd heard earlier this year of a political controversy, now that that has been put behind them, the economy is starting to pick itself up. The big wild card is Venezuela, which has been basically drenched in oil money and now, with their declining oil prices, we can see a significant fall.

The outlook for 2002 is basically that we're going to see Latin America growing at less than 1%, the same as this year, less than 1%. Latin America responds to a recession in the U.S. with a lag of about six months or thereabout. So that we're still seeing business from Latin America, but next year we're going to start to see a lot that they have in their pocket, they're going to become more scared. When we look at Florida trade, and I'm focused in that case on the Miami customs district in terms of international trade, we see that exports to Brazil are up 8% this year, again, a sign that it's still rolling. Exports to Venezuela are up 17% this year, again because the oil prices gave that economy a huge windfall. They have a grossly overvalued currency, which makes buying our goods extremely cheap, but now with lower oil prices, they could face a devaluation. Export to Argentina, are down 17% so far this year.

On the European side we see a significant slowdown and, as my colleagues have said, the effect of the U.S. on the European economy this year. I think that Europe will barely see 1% growth, so we look at the fundamentals as far as income growth, the activity in this economy, we're looking at a very, very marginal year as far as any activity.

Curiously, in Latin America, we're not going to see a deep recession, mainly because, except for Argentina, most of the other countries are much better managed today than they were when we went through our last recession and I think that that will be a plus for Florida. It will not affect us as much as perhaps other parts of the U.S. that are doing more business with Asia or perhaps with Europe. As far as the dollar, I think that we have seen the dollar rise from 1999 to today substantially with respect to the euro and I think that's where we might see some pressures next year. After all when you look at Latin America today, their external deficit is about 3% of GDP, our deficit is 4% of GDP. So, in this case we may need to go through a little bit of adjustment in terms of assuring and keeping strength of our economy.

Governor Bush: Any other comments to help us look into the future?

Russell Chuderewicz: I'll say, since I'm the new kid on the block, a few words. As everyone has said, we are in a unique situation here in a sense that the rest of the world is in a recession and everyone believes we are the locomotive of economic growth worldwide, and I'd like to use an analogy. Everyone's hoping for a winner and I think this is what we're seeing in the stock market over the last few months. And I think everyone realizes there's no place else to invest, excluding Mars. And I think the U.S. economy is going to be the first one to recover. And I agree with forecasters all over the map that the federal reserve is trying to jawbone people by saying the economy is going to come a little bit later or a little bit weaker. This is what we're saying here, probably in the third quarter next year.

Randy Holcombe: (Dr. Holcombe's microphone was not functioning properly; thus, he provided notes of his comments.)

Tony Villamil asked me to say a few words about the sales tax reform proposal being promoted by Senate President McKay. Based on my understanding of the proposal, I think we need to take a careful look at it, and be cautious in our approach. One of my concerns is that the proposal seems to be directed at a problem that Florida does not have. The Senate President appears concerned that if we do not undertake a major overhaul of Florida's sales tax structure, the tax base will be steadily eroded by shifts in spending from taxable goods to untaxed services. Yet the evidence is that the existing sales tax base is growing at least as fast as Florida's income. In fiscal year 90-91 Florida's sales tax collections were 2.8 percent of Florida's personal income, and by 99-00 had risen to 3.4 percent of personal income. Looked at a different way, Florida's sales tax collections in 90-91 were $680 in inflation-adjusted dollars per person, and rose to $908 per person by 99-00. That's an increase of 33.5 percent in a decade, after adjusting for inflation and population growth.

My point is that there is no urgency to reform Florida's sales tax. The system we have now will provide the state with adequate revenue growth in the future, without modification. Of course, our sales tax could be improved, but as we evaluate the Senate President's proposal, it should be with an eye toward whether the proposal really is an improvement, and with the recognition that we do not need to reform our sales tax. We have a good tax structure now, and while it could be improved, it will provide adequate revenues for Florida through the foreseeable future, without being changed.

There are two features of the Senate President's proposal that are likely to generate a significant negative reaction among Floridians. The first is that by lowering the rate from 6 percent to 4 percent, it will lower the share of sales taxes tourists pay by one-third, and if the proposal is revenue-neutral as he says, shift that share to Floridians. If this proposal were applied to last year's taxes, it would have lowered the amount of sales taxes paid by tourists by $840 million, and again, if the proposal is revenue-neutral, would have increased the sales taxes Floridians pay by that amount. The second aspect of the tax that will surely generate opposition is that it shifts taxes from consumers to businesses. Of course, taxes on businesses are eventually passed on to consumers in the form of higher costs, but a deeper problem is that if businesses face a tax increase, this lowers the competitiveness of Florida businesses relative to other states. A sales tax is best designed as a tax on final consumer purchases, and the Senate President's proposal would move Florida's sales tax further away from a consumption tax. Florida's sales tax already taxes many business purchases, and making it more of a tax on business is likely to have adverse consequences for the state's economic growth.

The Senate President says that the items he proposes adding to the sales tax base are growing faster than the existing sales tax base, and while I have not examined the data in enough detail to confirm this, I think it probably is true. If so, adopting that proposal would mean that Florida's sales tax revenues would grow faster than if we keep our existing tax base, and that is likely to be a deciding issue for many legislators and voters. Those who want tax revenues to grow faster are likely to favor Senate President McKay's proposal, and those who do not are likely to oppose it.

Governor Bush: One of the things that the Council could provide some help on this is typically in the political realm to make these predictions in a stasis mode without any consideration of the impact of cutting taxes to stimulate the activity. I hope you all can gather up and determine how we can look at this as policymakers and, there are some taxes that can’t be taxed on, the ones that can’t ultimately could provide the opportunity for deinvestment and loss of jobs.

I like the idea that big ideas can be discussed in the public square. It would be helpful for us to get, to add a dynamic element to this, so that we can look at this and try to visualize what consequences could happen that haven’t been considered yet.

Don Calabro: Governor that’s exactly what I spoke with Dr. Villamil and Dr. Dana before, but Tax Watch will be doing, engaging in an analysis and I mentioned this to Senate President McKay yesterday who called us looking for an active endorsement. We want to see if this helps or hurts two major things: capital formation, which I see both of our economists really focused on, and job growth. One of the things we’ve noticed since 9/11 is the need to strengthen and diversify our economy. It’s one of the questions we want to apply to this proposal, and any other is what does it do to help capital formation and job creation in our state. We have a lot of businesses that want to see their products to Floridians and to the tens of millions of visitors that visit our state, but because of global competition and technology and telecommunications, they're able now increasingly to sell their products and services to residents and tourists in Florida without physically being present and thus avoiding a lot of the normal tax we would place on them. So the question is how can we encourage that, I think the real issue here is how do we develop and grow our economy to the good of our citizens, their prosperity, and in financing Florida state and local governments.

Al Hoffman: Governor, my view as a businessman and director of the Council of 100 is right now we are all in the state of Florida focused on trying to help our businesses and expedite the recovery. Without arguing the merits of this proposal by Senator McKay, there may some good things to it and there may be plenty of bad things to it, I just feel that the right idea may no longer be right if this is the wrong time. I cannot conceive of how we can expect our business economy to focus on recovery and, at the same time, try to deal with a $5 billion tax reformation. It's something we'd find very, very difficult to do and, again, I don't mean to attack Senator McKay, but just now – now?

Steve Morrell: Governor, one other point you made earlier, and I think it deserves some elaboration, too, the tax dynamics of this we all agree are important to look at. But at the same time, just comparing this proposal to what we already have ignores other proposals that may even be better than this one. And by tending to look at them in a piecemeal, what we have today versus just one alternative, we tend to limit what we can do. So, if we're going to look at these things seriously, and I think that something this important has to be looked at with great care and seriousness, it may be better to look at just one alternative to what we have at the present. We can't look at everything.

Governor Bush: In fact, I want to encourage that. Steve, the thought is a very solid one. There may be ...I've signed bills that have had really idiotic tax exemptions that were in there with good public policy. It's the one tiny little exemption for one company; I had one last year and I vetoed it – it gave me great joy. So we have a lot of this stuff in our code, clearly, there's suggestions on a path to deal with the questions of our tax code, maybe there's another alternative has a better impact on our economy.

Susan McManus: Governor, I track what happens at the local level a lot, and one of the things that I'm seeing across the state is more and more elections, based on an anti-growth platform that's prevailing. And when I've done some surveys of cities and counties, they tell us their response, that one of the things that's causing local governments in Florida a lot of trouble is the return of the mandate, that the legislature is putting a lot of pressure on local governments and it's causing people to, when local governments can't react quickly, it's causing people who are anti-growth to get elected to office. If we maintain that economic growth as the engine of Florida, this is one thing that we need to track a little more.

Governor Bush: That's a good point. I would add also that local government is really affected by property tax collections, which have grown geometrically during the times. This year's estimation is 10% increase in property taxes across the state.

Pam Dana: Governor, I promised everyone we would end promptly at 2:00 and I'm twelve minutes over.

Governor Bush: It was in the margin of error. All of the economists will appreciate that.

Pam Dana: We have some marching orders then for, as I hear at the Council of Economic Advisors and perhaps Tax Watch to go out and look at this tax plan and evaluate it.

Tony Villamil: Right, we have a number of issues, tax being one of them, and also to monitor the U.S. economy, but it seems, Governor, that we're on track for a third and fourth quarter economic recovery. Thank you, Governor.

Pam Dana: Thank you all.

Governor Bush: Thank you all very much.