FLORIDA POLICY INSTITUTE

Common sense ideas for Florida's future

Report

# Recovery or bust: 44 percent of Florida's households cannot afford basic expenses

Despite Florida's economic recovery, almost half of Florida households have been left behind. These households struggle to survive on income less than that required for the most basic family survival budget. Fundamental changes in Florida's job market and economy point to underlying weaknesses in the state's jobs and growth strategy, offering some explanation as to why so many families are left behind. Lawmakers should stop relying on ineffective tax cuts and business subsidy policies and instead adopt commonsense policies that enable Floridians to earn their prosperity.

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The 2017 ALICE report, a publication of United Way of Florida, provides a comprehensive review of the economic and social realities facing Floridians who are working and earning income above the poverty line but cannot afford basic costs of living. These households are called "ALICE," which stands for **A**sset **L**imited **I**ncome **C**onstrained **E**mployed. The report is based on data for the period 2007 to 2015.

Florida's economy has largely recovered from the recession, yet far too many Floridians are still struggling to pay for basic costs of living. Of Florida's 7.5 million households, 44 percent cannot afford to pay for food, health care, housing, child care and transportation. This figure includes the 14.5 percent of households below the federal poverty level (FPL) of $24,250.[1] The ALICE families constitute an additional 29.5 percent of Florida households. ALICE households earn an income above the FPL, but below the ALICE household survival budget level (the actual cost of necessities in Florida) adjusted for differences in counties and household types. In 2015, the minimum income required to pay for basic needs ranged from $44,028 to $68,952 for a family of four, depending on the family's county of residence.

Additionally, the ALICE report highlights fundamental shifts in the state's economy that are key to understanding why so many families are left behind and the dangers of relying on ineffective policies to create jobs and grow the economy. Florida's economic recovery has been lopsided and dominated by low-paying jobs, according to the report. Also, there was a notable shift toward more job losses among Florida small businesses, largely due to a lack of resources. These shifts are not captured by commonly used economic indicators, so they are not often highlighted or part of the annual budget and policy debates. However, these shifts provide information important to inform lawmakers' spending decisions regarding priorities such as reducing poverty, creating quality jobs and diversifying the state's economy.

## Lopsided economic recovery: Florida's economy has become more dependent on service industries, while non-service sectors continue to shrink

Florida's economy is service based; its recovery has been driven by growth in service sector industries. Four of Florida's top service industries recorded double-digit growth in terms of their contribution to GDP between 2007 and 2015. Education and health services grew the most by 19 percent, according to the report.[2] Likewise, leisure and hospitality industries grew by 16 percent, the second highest among all industries.

Conversely, non-service industries largely declined. The manufacturing and construction industries shrank by 10 percent and 24 percent, respectively, in their contribution to GDP between 2007 and 2015. The agriculture industry already contributes the least to GDP.

### *Why is this important?*

Most new jobs created by Florida service industries pay low wages. In 2015, 19 of the 20 most common service sector jobs paid less than the level required for the ALICE household survival budget, according to the report. The decline in non-service sector activities relative to GDP, particularly in manufacturing, suggests non-service sectors are less likely to be drivers of economic growth or the creation of high-paying jobs in the future. Service sectors with high paying jobs employ a small share of ALICE workers.[3]

The decline of non-service industries relative to GDP suggests Florida's economy is less diversified than before the crisis, making it more vulnerable to future crises. Efforts to diversify the state's economy after the recession have focused on tax cuts policies and subsidies for selected industries. The above findings suggest these policies have failed to diversify the state's economy.

In addition, the increased dependency on service industries make the state's budget more vulnerable in the future. Florida's budget depends primarily on sales and use taxes, most of which are generated within the service sector, to fund core public services. In the Fiscal Year 2008-09, Florida lost more than $3 billion in tax revenue, over the previous year. It took four years after the recession ended for state revenues to return to pre-recession levels. The loss of revenues resulted in budget cuts to vital programs like education and health care that affected millions of Florida families. When public services are lost to budget cuts and are not completely restored in the economy's recovery, the state shifts the burden to families to pay more out of pocket for services.

## The gig economy: Rise of the part-time and contingent work with few benefits

Labor markets are continuously changing in terms of workers' participation and type of work. In Florida, there is a rise of short-term jobs and project work, also called freelance or contingent labor. Low wage jobs, mostly in the service sectors, are increasingly shifting away from being full-time jobs that include benefits to part-time jobs that have no benefits. In addition, freelance and contingent labor work is without benefits or traditional work hours, according to the report.[4]

Florida's job market is not as robust as it seems. While the state unemployment rate was 5.4 percent in 2015, its underemployment rate was 11.5 percent.[5] The underemployment rate includes unemployed workers ***plus*** those workers who are high-skilled, but working in low-paying jobs, and part-time workers who would prefer to be full-time.

### *Why is this important?*

While the number of jobs created is important, the quality of jobs matters. Permanent and full-time jobs with high-wages and good benefits enable households to pay for necessities, invest in their future and save for retirement. Conversely, gigs, part-time and contingent work with low-wages and less benefits are high risk jobs. Workers relying on these types of jobs are one illness, car accident or mortgage payment away from falling into poverty, indebtedness or homelessness.

Moreover, contingent workers are more likely to experience job instability, have worker-safety issues, and feel less satisfied with their work arrangement and benefits, according to the report.[6] These make it more difficult for the state to end poverty, increase household self-sufficiency and reduce the number of people depending on public assistance programs. In fact, contingent work can lead to greater dependence on public support programs because of low wages and benefits.

## Small businesses created most new jobs, yet they are less likely to retain these jobs due to lack of resources

Generally, job loss in small businesses is high. However, during the recession and continuing through 2015, there has been a shift toward higher levels of job loss in Florida's small business sector, notes the report. Small businesses cannot quickly adjust to market changes and do not have the resources to fall back on during lean times; accordingly, many small businesses are forced to downsize or close, resulting in high levels of job losses. In the second quarter of 2014, 87 percent of all ventures created in Florida closed, moved to another state or merged with another business.[7]

### *Why is this important?*

Higher than usual job losses in the small business sector suggests current policies aimed at helping small businesses grow, create and retain good paying jobs are poorly targeted and ineffective. Since the recession, lawmakers have made tax cuts and subsidies for businesses the centerpiece of the state's jobs and growth strategy. Annual tax cuts and subsidies are pitched as support for small businesses, but benefit large businesses and corporations. Most small business do not benefit from tax cuts because they generally have little taxable income. Most business subsidies target businesses with more than 1,000 employees,[8] while more than 98 percent of employers in Florida are small businesses with less than 500 employees.[9] Thus, small businesses received little to no direct benefit from state spending on tax cuts and business subsidies. Further, tax cuts and subsidies for large businesses stifle competition, making it harder for small businesses to compete.

## Conclusion and recommendations

While Florida's economy has recovered from the crisis, 44 percent of Florida households cannot afford to pay for necessities. Florida's recovery has been driven by growth in service sectors while non-service sectors continue to shrink, making the state's economy and budget more vulnerable to future financial crises. While job growth after the recession was positive, most jobs created are low-paying jobs with less job security and fewer benefits. ALICE households surviving on low-paying jobs face high risk of falling into poverty, indebtedness or homelessness. Small businesses, which lead job creation in the state, experienced higher than usual job losses due to the lack of resources. These findings suggest that state policies aimed at growing and diversifying the state economy and promoting job creation are poorly targeted and ineffective.

Lawmakers should increase public investment in core services such as affordable healthcare, transportation, housing and childcare, which would ease the burden on families struggling to make ends meet. The state can free up millions of dollars to invest in these priorities by abandoning ineffective tax breaks and business subsidies. Additionally, Florida lawmakers should reform the state's jobs and growth strategy to better support new sectors, small businesses and the creation of quality jobs. This is important for making Florida's economy more resilient to future crises.

## Notes

[1] The United Way of Florida, ALICE Report 2017. p.1.

[2] Ibid, p.32.

[3] Supra Note 1. p.31.

[4] Ibid, p.35.

[5] Ibid, p.36.

[6] Ibid.

[7] Ibid, p.33.

[8] The Florida Legislature, Office of Program Policy Analysis and Government Accountability, Florida Economic Development Program Evaluations – Year 4. p.11.

[9] Small Business Profile, Florida 2015. p.1.