Learning from North Carolina's HB 2 Experience:
The Negative Economic Impact of "Discriminatory Legislation."

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Introduction

Legislation that could allow for legalized discrimination against certain groups of people is not just wrong, but can also produce negative economic outcomes. This memo enumerates some of the negative economic consequences associated with the adoption of "discriminatory legislation" aimed at the LGBTQ community based on North Carolina's experience with HB 2 and what an event like that could mean for Georgia.

It is useful to divide the negative economic consequences into two broad (and sometimes overlapping) categories: 1) longer-term negative growth paths and 2) one-off losses. The one-off losses are easier to quantify because of their nonrecurring nature. That is, if you lose a concert or a sporting event, there is a one-time loss associated with the event not taking place. The longer-term growth issues are both much harder to quantify and much more important. Failing to attract new firms, or realizing existing firms' expansion activities, puts an economy on a lower growth trajectory that will have profound negative consequences over time. These consequences are ultimately much more expensive than the one-off losses.

Recent events, like what transpired in North Carolina in 2016 with HB 2, have provided some insight regarding the costs associated with discriminatory legislation. Two years ago, Indiana passed legislation that generated such a firestorm of criticism that the bill was effectively rewritten to add clarifying nondiscrimination language less than a week after it was signed into law. Even though the offending legislation in Indiana was only in full effect for less than a week, the size of the negative economic reaction provided some basis for estimating costs here in Georgia. Now with North Carolina's HB 2 experience and the economic fallout the Tar Heel state experienced, we can make similar cost estimations and how Georgia would be impacted if facing similar fallout based on this most recent event.

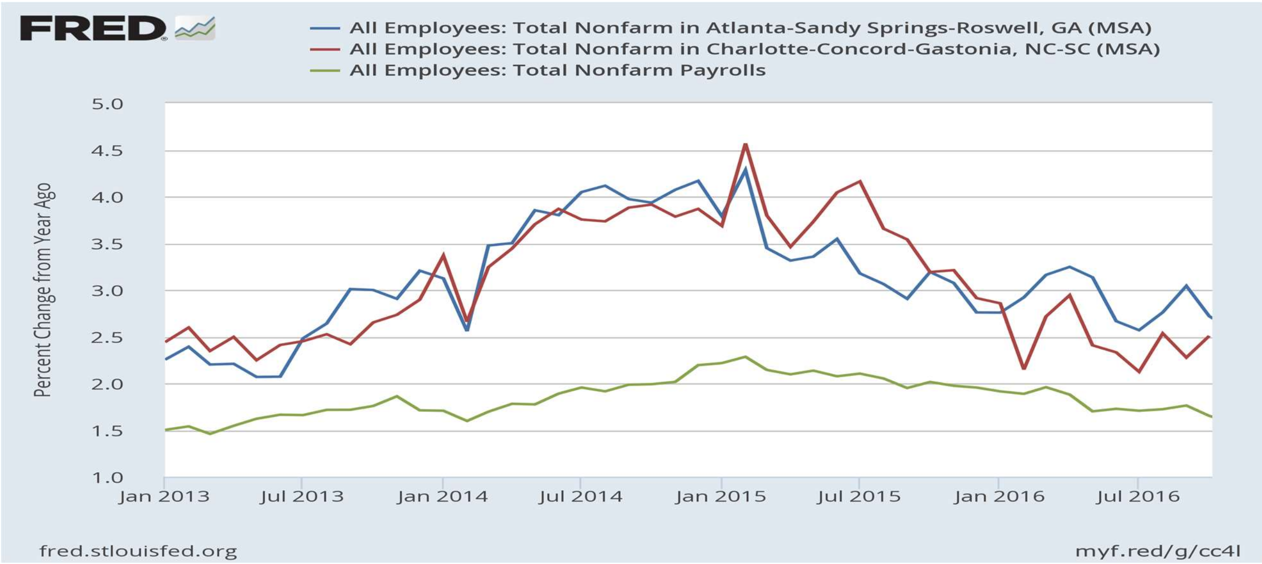
North Carolina's One Off Losses

On the one-off side of losses, North Carolina lost multiple high-profile concerts, the NBA All-Star game, all NCAA Championship events as well as ACC Championship events. Combined with outright cancelations of convention events, estimates of the direct losses to the state are on the order of **$1 billion.** The losses are ongoing, and the Charlotte Business Chronicle has a long string of articles enumerating the losses that are showing no sign of ending. Other states and local governments have even gone as far as implementing travel bans to North Carolina while HB 2 is law.

North Carolina's Economic Growth Path after HB 2

Contrary to what some have claimed, the North Carolina economy is showing damage. Those that contest otherwise do not account for what is happening on the ground in the state, understand the dynamics of a modern economy, or both.

An odd claim often made is that the North Carolina economy has not been damaged by its legislation because the economy has continued to grow. This seems like a serious misunderstanding of how modern dynamic capitalist economies function. North Carolina has been adding jobs at a faster rate than the nation for some time. Once these jobs are in place, they are, at least for a while, captive to that location. The state economy was growing very fast because the businesses both there and relocating to North Carolina were doing well in larger markets. That does not change overnight. New firms may stop arriving at the same rate as before, and existing firms may consider additional expansion in an out-of-state location. But neither of these processes can turn overnight. For example, if a person is going fast in a car and then put on the brakes, that person does not instantly go backwards, but will slow down.

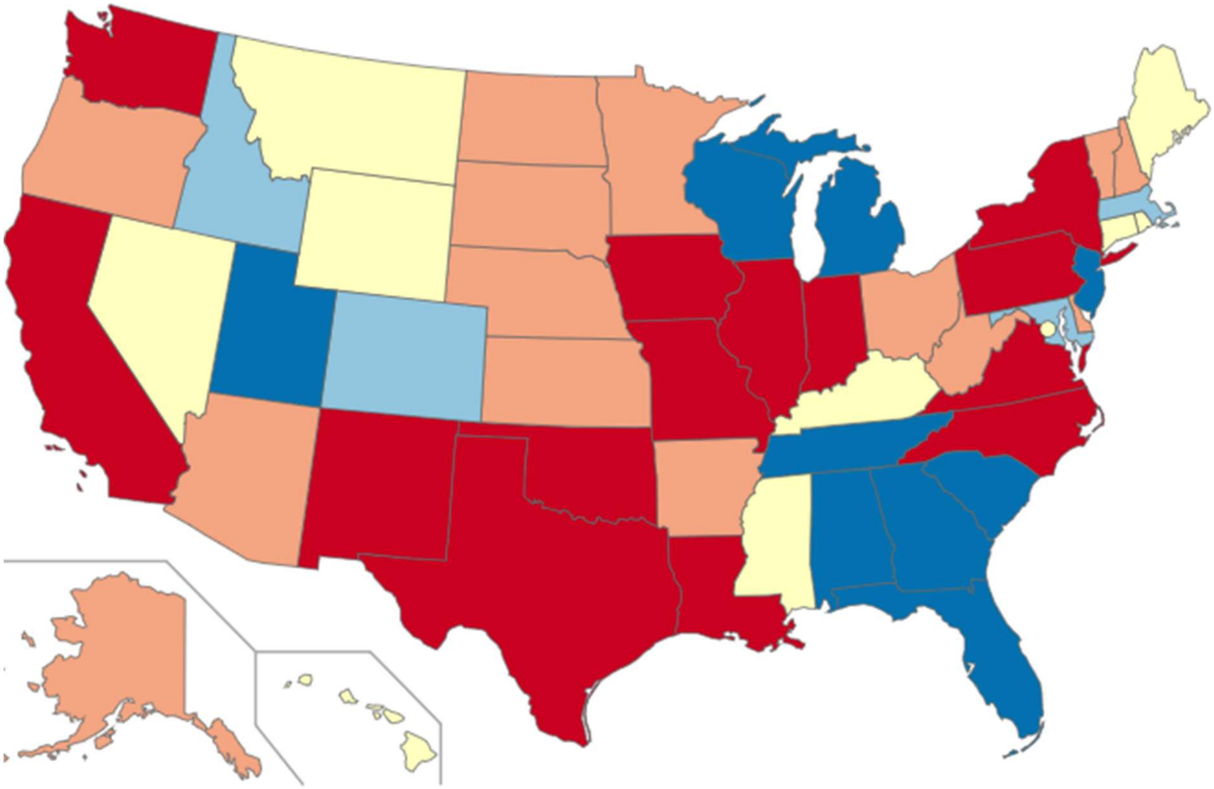


The chart above shows the Charlotte metro area's job growth since the beginning of 2013 through October of 2016, the most recent data available for the city as of this writing. Charlotte's growth is scaled against both Atlanta and the U.S. Both cities outperformed the U.S. by a considerable margin. Charlotte has, over this time, generally done better than Atlanta in percentage growth terms, although since it is a smaller city, Atlanta has been attracting a larger overall number of jobs. Both cities performance shows the considerable volatility of the month to month data. Until the beginning of this year, Charlotte grew at a systematically faster pace than Atlanta through the surge in the recovery. Through the course of this year, Charlotte has underperformed. The crossing point in the two cities relative performance coincides with North Carolina's adoption of HB2. This could easily be a remarkable coincidence, but since that time Charlotte's growth has been systematically muted compared to its neighbor to the south. Of course, this is too little data to make definitive empirical claims. But the data, combined with the mounting list of specific job losses are clearly supportive of the notable slowing narrative. Knocking a percentage point off of growth has serious long-term compound consequences.

More evidence that North Carolina may have broken away from the rest of the Southeast in terms of leading the nation in growth comes from a Bureau of Labor Statistics blog post that looked at year over year job growth in manufacturing as of this September. [1]

In the picture below, the states are color coded depending on job changes in manufacturing. Dark red indicates more than 1,000 jobs lost year over year. Light red 0 to 1,000 jobs lost, yellow a gain of 0 to 1,000 jobs, and dark blue greater than 1,000 jobs gained. The nation as a whole lost manufacturing jobs, and this is largely due to productivity gains. That is, once a manufacturing facility is in place it tends to become more efficient and thus require less labor to achieve the same output. States tend to gain manufacturing jobs by attracting additional plants, or by seeing existing plants undergo substantial expansion.

A striking feature of this map is the stark difference between North Carolina and the rest of the Southeast. Even Florida is seeing substantial growth in manufacturing. North Carolina is not. Again, it is possible that this is just an extreme case of statistical noise. But the divergence is stark and suggests that there is something other than simple noise behind it.



Economic development inquiries have slowed for Charlotte. Thousands of jobs have been identified by its Chamber of Commerce as being lost because of HB2.[2] More importantly, the unknown inquiries that were diverted to other locations can never be quantified. The long-term growth path is simply lower than it was before the legislation was passed and signed into law. The compounding of that lower growth rate over time seriously diminishes the future outlook for the state, and that diminished outlook is itself an impediment for

[1] https://www.bls.gov/opub/ted/2016/texas-lost-26800-manufacturing-jobs-over-the-year-ended-september-2016.htm
[2] http://www.charlotteobserver.com/news/business/article115143713.html

attracting growing businesses. Firms would rather locate in a state with good long-term prospects as opposed to a state that has deliberately chosen a lower-growth path.

What this could mean for Georgia?

Sporting Events

Georgia has more at risk than many other states, particularly relating to sporting events, film production and convention business. As it relates to athletic events that are scheduled to be held in Georgia, Atlanta is set to host the trifecta of sporting events: the College Football Championship in 2018, the Super Bowl in 2019 and the NCAA Final Four in 2020. And Rome is scheduled to host the ACC Tennis Tournament in April 2017. This is the same tournament that was moved from North Carolina because of the controversy after HB 2 become law. If Georgia were to take up and pass an HB 2-styled bill, the NCAA events could be pulled, resulting in **more than a $200 million loss.** The Super Bowl would be harder to relocate, but at present, there is enough time if the NFL decided to move the game, which would total **to a loss of approximately $400 million. In total, if sporting events were moved or canceled, losses would easily total $600 million.**

Film Production

One serious problem that is unique to Georgia is the emerging film industry. Georgia is one of the top places for film production in the world behind only California and the United Kingdom. The Governor's Office estimates that it currently provides a net addition of around $7 billion to the state. Production companies have publicly stated that they would withdraw production activities from the state if discriminatory legislation were to pass. This would both be a considerable one-off blow to the economy, but more importantly, it would derail one of the fastest-growing and highest-visibility industries in the state. **A $4-$5 billion hit over the next few years would hurt by itself**. Having a very high profile industry explicitly reject the state as a place to do business would be very costly far beyond the bounds of the industry by itself.

Convention Business

Georgia's convention business is proportionately larger than North Carolina's. For instance, in Atlanta alone, the Atlanta Convention and Visitors Bureau estimates outright cancelation losses of at least **$2 billion**. This essentially takes Georgia off the map and out the running for the convention planning industry. Large conventions are expensive and time-consuming to plan, and the industry trade journals have polled the event planning professionals, and the overwhelming majority have taken a "why take the risk?" view of states that take up this kind of legislation. The profession has plenty of other large convention options available, and rather than risk a location that may be problematic, convention planners will simply go with the safer set of choices.

Conclusion

In total, Georgia could experience a $600 million loss due to lost sporting events, a $2 billion loss in convention business and $4-5 billion in losses due to the cutback in Georgia based film production over the next year.[3] So overall, with **near-term losses over $7 billion** (plus or minus a couple of billion!) range and the potential for a permanently lower long-term growth path, it seems as though there are very substantive risks involved in adopting any discriminatory legislation.

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[3] http://www.bizjournals.com/atlanta/print-edition/2016/02/26/business-groups-work-to-defeat-religious-freedom.html