



THE ACHILLES' HEEL OF THE REGIONAL ECONOMY: FOUR CHALLENGES THAT ARIZONA MUST ADDRESS

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OUR REGIONAL ECONOMY PROVIDES AN unparalleled case study of excessive dependence on population expansion and simplistic growth models. As a consequence of the downturn in the national economy, we have been witnessing the unnerving gyrations of an economy driven primarily by population growth and housing construction. We are also beginning to see the impact of significant income disparities statewide. Attendant fluctuations in state income have led to political complexities and contribute to our inability to make strategic long-term investments. Because it is also difficult to accurately estimate state revenues, we lack sufficient perspective for judicious public sector investment.

The analysis of economic trends that we have heard this evening suggests that Arizona has an Achilles' heel. I concur with this assessment. Attempts to reassure ourselves that because of our quality of life and abundant natural resources, growth will continue unabated and the housing market will eventually spring back, underscore the persistence of the traditional Arizona model of economic development through population expansion. We might term this model "social mobility growth" rather than innovation-based growth.

The projection that in the long-term metropolitan Phoenix will remain one of America's great population growth centers undeniably suggests genuine potential. As we look ahead over the next thirty years the population of the United

States will probably increase somewhere between 100 and 125 million people. Some projections suggest by as many as 140 million people. According to some demographers, 80 percent of those individuals will live in ten regions, one of those being the Sun Corridor, spanning the vast area from north of the Valley to south of Tucson. Present trends indicate that the Sun Corridor is the fastest growing of these megapolitan regions.

In the East Valley we find ourselves in the heart of this emerging and complex and, let us hope, robust and competitive megapolitan region. But to put our assumptions into perspective, I would like to offer as counterexamples the cities of Eugene, Oregon and Kansas City, Missouri. The citizens of Eugene, for example, have decided to advance their economy without population growth. Growth is not embraced either by Eugene or the greater Willamette Valley or the State of Oregon. Instead they advance economic development based on the expansion of personal income of existing residents. Theirs is a differentiated approach that is in some ways more complex, requiring different energies and focus. Just yesterday I was in Kansas City, Missouri, and the citizens there share with us in Phoenix the same desire to be a great city. But in Kansas City their approach is not based on growth because their population is fairly stable. Instead their approach is also based on investment in quality of place, investment in cultural amenities, investment in education, and investment in science.

BUT IN ARIZONA POPULATION GROWTH IS THE driver, and has been the driver for so long that most of us here cannot remember what it would be like to advance the economy in some way other than through such growth. I would however suggest that we should be cautious about assuming that population growth is itself sufficient to drive the economy forward. Instead we should identify and advance those factors not associated with population growth that would lead to enhanced regional competitiveness.

Matching our magnificent natural resources are societal qualities that we must be careful to maintain. Arizona remains a place where civil discourse remains civil, and where people can discuss complicated issues and actually work together toward solutions. In Arizona, housing remains relatively affordable and the spirit of an entrepreneurial economy is largely protected and maintained. All of these attributes are powerful incentives that attract population growth, and none can be taken for granted or necessarily be maintained without effort. But the gyrations of an economy driven by population growth and housing, coupled with the enormous income disparities that we are beginning to discern in Arizona, may not allow us to maintain these social attractants.

My own view is that the East Valley has the potential to increase its economic competitiveness over the next twenty-five years. However, there are at least three factors that could detrimentally impact that potential. First, unforeseen externalities beyond our national borders could dramatically change the dynamics of competition and economic positioning. Second, I do not believe that either in the East Valley or the greater metropolitan region we are yet as adaptable, flexible, or creative as we need to be in order to be competitive. Third, our economy is too much driven by the failings of other places. We benefit from the lackluster performance of other regions. Michigan, for example, is in relatively dramatic economic transformation, along with such states as Ohio and Kentucky. It is not really a positive indicator of sustainable long-term economic growth that economic refugees are waiting for the right moment to abandon an economy that failed elsewhere to move here.

FOUR CHALLENGES THAT CONFRONT THE EAST VALLEY AND, MORE BROADLY, ARIZONA

As I see it the East Valley has four very important challenges ahead, both in terms of dealing with the Achilles' heel that we have discussed, and in increasing the probability of attaining the positive outcome over the next twenty-five years that we have also considered.

First, we must come to terms with both the pitfalls and potential of growth. I perceive some form of collective denial among Arizonans regarding the rapid population growth in the state. Perhaps this is in part a function of the demographics of immigration, because our growth is primarily domestic immigration. But many long-time Arizonans seem unwilling to accept the fact that in terms of population, Arizona will become larger than New Jersey, Michigan, Illinois, and probably Pennsylvania.

Arizona will become one of the ten largest states in the Union, but we have yet to realize that we need to develop and implement a more sophisticated system of public finance to accommodate rapid population growth. If one factors out growth in metropolitan Phoenix, for example, the economy is relatively flat. And this tells us that the regional economy is not yet innovation-driven. In Arizona we are behind the growth curve and we have neither the level of financial planning nor the public finance tools that could provide for easier transition through periods of economic stress and population growth.

As just one example of the challenges we face in terms of dealing with population growth, consider the case of Arizona State University. While Maricopa County has the same population as the State of Colorado, Maricopa County is the home to only one public baccalaureate granting institution. The State of Colorado by contrast has a number of colleges and universities, both public and private: the University of Colorado at Boulder; the University of Colorado at Denver, consolidated now with the medical school; the University of Colorado at Colorado Springs; Colorado State University, in Fort Collins, and its multiple campuses; the University of Northern Colorado, with its multiple campuses; a number of regional institutions like Fort Lewis College and Adams State College; and a few noted private institutions such as the University of Denver and Colorado College.

Because Maricopa County has only one comprehensive public university, I believe it is incumbent upon Arizona State University, as part of its mission to serve the people of Arizona, to accommodate the burgeoning demand for baccalaureate degrees and graduate education with programs of the highest possible quality. Accordingly, as you look out at the new construction now underway at ASU at the Polytechnic campus, you see an enhanced learning environment taking form that will be able to accommodate 15,000 university students. As a result of this expansion of the Polytechnic campus and the growing capacity of both ASU at the West campus and ASU at the Downtown Phoenix campus to serve up to 15,000 students each, ASU will have

the ability to provide access to more than 90,000 students. In this effort to help meet the demand of Arizona high school students who are qualified to attend the university, ASU would by no measure set any national record in terms of enrollment. As you may be aware, four hundred forty thousand students attend the twenty-three campuses of the California State University system. And two hundred fourteen thousand students attend the ten campuses of the University of California.

Secondly, we must enhance the creativity index and the rate of innovation. Arizona is performing at about one-half of the rate that it should in terms of its capacity for innovation and potential for economic competitiveness. It may be wonderful that Arizona captures about one percent of the country's venture capital investment, but Arizona has two percent of the country's population. And in this context, Arizona is bordered by some of the most competitive areas in attracting venture capital investments: Santa Clara County, San Francisco County, San Diego County, Los Angeles County, Marin County, and Alameda County are the places where that venture capital is concentrated. In this context it is important to note that both Phoenix and San Diego performed at the same level in 1978. Yet today the contrast could not be starker.

Third, we must advance sustainability and encourage its application in new enterprises. The concept of sustainability as a business outcome is very important to the future of the Arizona economy and the quality of life in Arizona. From an environmental perspective, sustainability means that the quality of life that people enjoyed when they moved here in the nineteen-thirties, nineteen-forties, and nineteen-fifties needs to be here in 2030, 2040, and 2050, when there will be twenty times as many people living here. If we do not address environmental factors the tourism industry in Arizona will be seriously diminished. Tourists may choose to avoid places where freeway signs alert drivers to a pollution alert. Sustainability represents a challenge but it is also an enormous opportunity. But neither the East Valley nor Greater Phoenix is yet on the path to sustainability.

Finally, we must address the challenges associated with insufficient personal income growth and increasing inequality between the rich and poor in Arizona. The disparity between our most affluent families and those most disadvantaged is stark and increasing by the fastest rate of all fifty states. There will always be such disparities but this is neither a productive social or cultural outcome. If one parses the workforce in Arizona carefully, there is insufficient personal income growth across employment categories. Even during recent years when aggregate income and state revenues have been

increasing, average per capita income remains relatively flat. This has the potential to create social disruption because it means that while some people are doing very well, many are not.

IN CLOSING, LET ME NOTE THAT I BELIEVE THESE ARE the four challenges that Arizona must address: (a) we must come to terms with growth; (b) we must enhance the creativity index and the rate of innovation; (c) we must advance sustainability and sustainable new enterprises; and (d) we must address the challenges associated with insufficient personal income growth and increasing inequality between the rich and poor in Arizona. Our region will be competitive to the extent that its citizenry is aware of what is at stake, and its workforce is comprised of individuals with resilience and adaptability and a capacity for creativity and innovation, each adding incremental value from their respective contributions. At Arizona State University we are committed to producing graduates with these qualities, and to working with state and municipal governments and concerned citizens to ensure that the quality of life and quality of place we all value will still be here for future generations.