

Time to diversify economy? Experts weigh in

May. 17, 2008 05:59 PM

The Arizona Republic

(<http://www.azcentral.com/business/articles/2008/05/17/20080517biz-solutions0518question.html>)

It is true that relative to the rest of the nation, Arizona has been overdependent on the construction and some administrative services in its economy.

Progress has been made through the research centers at the state's major universities in a wide number of fields.

Additions in recent years of research-based initiatives such as the Translational Genomics Research Institute, Science Foundation Arizona and others have provided the basis for a renewed emphasis on research, practical applications and entrepreneurship.

Despite recent job losses in this cycle, Arizona is still one of the most attractive states in the nation for high-tech manufacturing companies.

The down phase of the economic cycle is rare and, at least historically, brief in Arizona, and we are well-positioned to resume growth later this year or in early 2009.

Ioanna Morfessis

Founding president, Greater Phoenix Economic Council

Owner, IO.INC

One reason the Valley may be in a recession is because it depended too much on housing and population growth to fuel economic expansion. That boom-and-bust cycle has been repeating for decades. A variety of Arizona experts were asked: *How can the region break that cycle and diversify its economy?*

Sal Rivera

Executive Director

Arizona Economic Resource Organization

In addition to attracting new businesses, Arizona should work to retain strong industries and support emerging knowledge-based businesses. Arizona must also aggressively support the drivers of a diverse, modern economy.

Governor Napolitano and Arizona business leaders recently created the Arizona Economic Resource Organization to diversify and modernize Arizona's economy.

AERO is providing leadership in various areas, such as developing capital formation and business-retention strategies, pursuing statewide economic branding and marketing initiatives, and conducting meaningful strategic-action planning.

AERO is working with its partners to critically analyze Arizona's business environment, increase its efficiency and bolster the return on investment garnered by Arizona's economic development tools and incentives.

We need to work collaboratively to attract and retain high-wage employers. Regional and statewide

cooperation will be increasingly important in the future. AERO will continue to build on and expand these collaborative efforts for the good of all of Arizona.

Marshall Vest
Director, Economic and Business Research Center
Eller College of Management, University of Arizona

The boom-bust cycles we experience here in Arizona are a natural byproduct of our rapid-growth profile.

Arizona perpetually ranks No. 1 or 2 in the nation in population growth. This requires a large portion of our economic resources devoted to providing the needed infrastructure.

If one includes construction workers and mortgage brokers, architects, landscapers, Realtors, [commercial](#) brokers, etc., you see that nearly 20 percent of Arizona's workforce is related to growth. When the economy grows robustly (as it did during 2004-06), a larger portion of resources is required. But when growth slows, these resources must shrink (layoffs, bankruptcies, closings, etc.).

The idling of these resources in turn become a drag on the rest of the economy.

In short, our rapid-growth profile makes Arizona one of the most cyclically volatile states in the country. This cycle was accentuated by the housing bubble as investment/speculative money poured in from around the country.

What this means is there really isn't much that policymakers can do to ameliorate the volatility. It's always a good idea to diversify and to keep Arizona competitive so that we can develop quality growth. But cutting taxes, providing incentives and building public-private initiatives do nothing to smooth out the business cycle.

Over the long term, Arizona's underlying growth will eventually subside and downturns will become less severe.

Steve Betts
President, CEO
SunCor Development Co.

There is little evidence to support either the assertion that Arizona is overdependent on the real-estate industry or that the real-estate industry has caused routine economic crises during our lifetime.

Knowledgeable analysts of Arizona's economy repeatedly observe that, in fact, the bulk of our economic base is high-tech, advanced financial services, tourism and [retirement](#).

While growth is an industry, it is actually a vendor industry, one that responds to the demands for space in which to live, work and recreate created by other industries.

In Arizona, growth in the real-estate-development industry reflects general economic growth. And that growth will continue because Arizona remains an attractive destination in terms of its natural environment, climate and employment opportunities.

We all need to try to encourage greater economic growth, and diversification could be beneficial. A greater presence of industries like finance, aerospace and bioscience would be helpful.

We can do that by placing greater emphasis on attracting and educating a qualified workforce and by maintaining hospitable regulatory and taxation policies.

Every economy is cyclical and goes through periods of overbuilding and underbuilding.

It's important for us to keep that in perspective.

Barry Broome
President, CEO
Greater Phoenix Economic Council

GPEC's mission is to attract and grow quality companies to provide the best jobs for our communities.

Arizona's economic-development policies do not enable us to be as competitive as we need to be. Arizona often finishes among the top five in relocation or expansion sites in high-quality industries. But the state is ultimately unable to capture many projects because of the lack of tools available to make enough of a value proposition for the companies.

The state's economic-development programs should be analyzed for effectiveness and restructured to fit the state's economic priorities.

Solar is a high-growth industry, critical to the future of the global economy, and Greater Phoenix has the potential to become a leading solar market.

We have an operating-cost advantage over California and other select markets, a large pool of semiconductor workforce talent whose skill sets are transferable, unique inventory in existing semiconductor facilities, solar-research capabilities at Arizona State University and a sizable market for solar products in the future, and abundant sun.

The recent agreement between Abengoa Solar and Arizona Public Service Co. is also extremely beneficial to attracting other solar-technology firms to the region and state.

Rob Melnick
Executive Director, Chief Operating Officer
Global Institute of Sustainability
Arizona State University

No metro area of the country is "recession proof." However, the Valley is more vulnerable to the vicissitudes of economic cycles than many other places.

Two strategies would help our economy be less prone to economic problems and more resilient:

- **Consistently invest in education and innovation.**

A well-educated, innovative, entrepreneurial work force helps [local businesses](#) weather tough times, attracts business here and creates new businesses. A plentiful, educated workforce coupled with the attractive quality of life we enjoy in the Valley is a winning economic combination. But this competitive advantage requires a long-term investment commitment, not a sporadic one.

- **Create powerful mechanisms to attract more foreign direct investment.**

FDI jobs pay, on average, quite a bit more than do domestically driven jobs. Unfortunately, the Valley isn't particularly well-known to the world. Ask people in Asia or in Europe if they know where the Phoenix metro area is or if they've thought about investing here, and you're usually in for a disappointment. I know - I've tried, and the results are very consistent. If the Valley wants to cash in as the world closes in on our standard of living, we'd be wise to shore up organizations and programs that promote FDI here.

Kent Ennis
Deputy Director
Arizona Department of Commerce

Addressing our historic real estate-related boom-and-bust cycles is all about shifting our priorities and values, then living with them through the choices we make, the leaders we elect and the Arizona we want to create for ourselves and future generations.

To expand the foundations of our beleaguered economy, we need to step up our efforts to attract foreign investment in job-producing enterprise and investment capital from international sources; expand entrepreneurship; and invest more in the sciences and technology.

Achieving a sustainable, globally competitive economy will require hard, and in some cases, politically unpopular actions.

To do this, we need to make it less enticing for government to place a higher premium on sales-tax generating businesses than on those that create higher-value-added knowledge economy jobs and innovation.

Purposeful action is needed at the state level to radically overhaul our entire taxation system so that Arizona's dependency on rooftops and the retail establishments that follow them is dramatically reduced. The responsibility lies first with our governor and Legislature, and then with Arizona's municipalities and special-interest groups.