A Significant Test of Economic Adaptivity

Positioning Arizona for a Stronger Comeback

Morrison Institute for Public Policy
State of Our State: 2020 Virtual Convening

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November 23, 2020
Fragile

“The quality of being easily broken or damaged”

—The Oxford Dictionary
Resilient

“the capacity of a system to absorb disturbance and re-organize while undergoing change so as to still retain essentially the same function, structure, identity and feedbacks”

—Walker et al., *Ecology and Society*, 2004
Antifragile

Something that “thrives and grows when exposed to volatility, randomness, disorder, and stressors and loves adventures, risk, and uncertainty”

—Nassim Taleb, author of *The Black Swan*, 2007
Fragile, Resilient, and Antifragile State Economies

- Antifragile
- Resilient
- Fragile

Per Capita Real GDP

- Washington
- Utah
- Arizona
Education Builds Antifragility by Enhancing the Productivity, Creativity, and Flexibility of the Workforce

Percentage of Employed People with a Bachelor's Degree or Higher, 2019

Data: US Census Bureau, Table B23006
The State of the Arizona Economy
The Arizona Economy Contracted by $25.6 Billion from 2019:Q4 through 2020:Q2

Arizona Gross Domestic Product, Quarterly

Data: Bureau of Economic Analysis
Economic Output of Every Non-Government Sector Shrank Except Agriculture and Investment Companies

Arizona Gross Domestic Product by Industry, Quarterly

Data: Bureau of Economic Analysis
World-Leading Sectors in Antifragile State Economies Are Still Growing During Pandemic

Data: Bureau of Economic Analysis
New Unemployment Claims Are Currently Double the Long-Run Average While Continuing Claims Remain Elevated.

Data: Bureau of Labor Statistics
The Arizona Unemployment Rate is Currently 1.2 Percentage Points Lower than National Average

Unemployment Rate, Seasonally Adjusted, Monthly

Data: Bureau of Labor Statistics
Expanded Eligibility for Unemployment Insurance Has Stabilized Personal Income in Fragile State Economies

Per Capita Personal Income Relative to US Average, Quarterly

Data: Bureau of Economic Analysis
Arizona New Business Formation Hit All-Time High in August 2020

Data: US Census Bureau, Business Formation Statistics
Positioning Arizona for a stronger comeback
## Policy Design for Fragile, Resilient, and Antifragile State Economies

<table>
<thead>
<tr>
<th>Political Attitudes</th>
<th>Fragile State</th>
<th>Resilient State</th>
<th>Antifragile State</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic Development</strong></td>
<td>Zero-sum view; focuses on businesses</td>
<td>Growth view; focuses on industries</td>
<td>Positive-sum view; focuses on technologies</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td>Ignores or avoids risk</td>
<td>Mitigates risks</td>
<td>Embraces risk as opportunity</td>
</tr>
<tr>
<td><strong>Technological and Economic Change</strong></td>
<td>Embraces stability</td>
<td>Aspires to predict change</td>
<td>Aspires to create change</td>
</tr>
<tr>
<td><strong>Public Resources</strong></td>
<td>Conserves resources</td>
<td>Reconfigures resources</td>
<td>Invests and transforms resources</td>
</tr>
</tbody>
</table>

### Economic Policies

<table>
<thead>
<tr>
<th>Focus of economic policy</th>
<th>Growth through corporate relocations, tourism, real estate, and service industry expansion</th>
<th>Growth through adaptation of existing economic resources</th>
<th>Development by improving enabling conditions for local creation of industries that don’t yet exist</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management and Support of Economic Actors</td>
<td>Centralized control but under-resourced</td>
<td>Decentralized control and adequately-resourced</td>
<td>Decentralized control and well-resourced by central entity</td>
</tr>
<tr>
<td>Role of Tax Policy</td>
<td>Seen as singularly important policy tool</td>
<td>Seen as one of many policy tools</td>
<td>Not seen as critical to targeted technologies/industries</td>
</tr>
</tbody>
</table>

### Economic Outcomes

<table>
<thead>
<tr>
<th>Type of technology in economy</th>
<th>Little, low-value or mature technologies</th>
<th>Indeterminate</th>
<th>Specialized in emerging technologies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor Force</td>
<td>Substitutable, commodified labor</td>
<td>Moderately skilled labor</td>
<td>High skilled, configurable, adaptable, entrepreneurial labor</td>
</tr>
<tr>
<td>Business “Stickiness”</td>
<td>Attracts businesses that can be lured to other locations with incentives</td>
<td>Indeterminate</td>
<td>Attracts and develops businesses that are deeply anchored to local clusters</td>
</tr>
<tr>
<td>Connection to Other Regions and Markets</td>
<td>Inward-looking; few connections are low-value and underdeveloped</td>
<td>Outward looking; few connections</td>
<td>Outward looking; many deep economic and cultural connections</td>
</tr>
</tbody>
</table>