

ARIZONA FEDERATION OF TAXPAYERS

Expanding economic growth and prosperity for all Arizonans

Policy Analysis: Building a Prosperous Arizona Time Tested Truisms for Economic Growth

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The local liberal intelligentsia has made much of the need to create a 20 year master plan for the Phoenix-metro area. The centerpiece of this central planning crusade is a vibrant and hip downtown. According to one local columnist, what the Phoenix metro area desperately needs is to become a “talent-magnet city” that “values openness to new ideas and tolerance¹.” Create this, and the so-called “creative class” will flock to Phoenix and generate wealth and prosperity for all.

However, the evidence does not support those much ballyhooed arguments. The cities held as paragons of urban coolness have all lost population, while the boring, bedroom community type cities have boomed.

Unfortunately, Phoenix civic leaders have fallen for the “Cool Cities” syndrome. A recent Goldwater Institute report lists \$4.5 billion in past and present projects designed to create a hip downtown district. None of this money has achieved its desired results and even the *Arizona Republic*, a big booster of these projects, admits that this money taken from taxpayers has produced only “marginal returns².”

The reason they failed is simple. Businesses and residents locate to Maricopa County for its business and family friendly climate, not because of the nightlife. Families find good jobs, affordable housing and low income taxes. Businesses find an educated workforce, a large population with disposable income, and low taxes and regulations. However, the unintended consequences of these “Cool Cities” projects is to diminish that which makes Phoenix and Arizona great. These projects do nothing more than redistribute money from the productive workforce and give it to projects with little or no economic value.

Policies for Prosperity

As *Arizona Republic* columnist Bob Robb says, “Phoenix is thriving, but you wouldn’t know it from listening to our civic leaders³.” The “Cool Cities” proponents use highly subjective “quality of life” measures such as a lack of nightlife, “too much” suburban sprawl and too few Nobel Prize winning residents to argue Phoenix is headed down the wrong path.

In our highly mobile society people vote with their feet. If those arguments were true, then there would be an exodus of businesses and families out of Phoenix. But, as Figure 1 illustrates⁴, the Phoenix metro area is the fastest growing region in the country, far outpacing the “Cool Cities.”

Figure 1: Population Flows	
Metropolitan Area	Net gain (loss) of Population 1995-2000
Phoenix-Mesa	245,159
Atlanta	233,303
Las Vegas	225,266
San Francisco	-92,795
Chicago	-309,148
New York City	-584,831

Not only is metro Phoenix a preferred place to live, but it is also one of the most desirable places to do business. *Inc.* Magazine recently ranked Phoenix as the 12th best large city to do business using that most objective measure of economic vitality: job growth. As *Inc.* explained, “a city’s educational and training systems, housing and living costs, taxes, regulatory burdens, and quality of life...are all ultimately reflected by job growth⁵.”

As Figure 2 shows, the best places to do business in the U.S. are the predominantly suburban communities. The worst places to do business tend to be large urban areas.

Figure 2: Best-Worst Cities to do Business	
Best Metro Areas	Worst Metro Areas
1. Atlanta	1. San Jose
2. Riverside-San Bernadino	2. Grand Rapids
3. Las Vegas	6. New York City
4. San Antonio	7. San Francisco
5. West Palm Beach	8. Portland
12. Phoenix	9. Boston

As further proof of the urban-suburban split, while the Phoenix-metro area is booming, downtown Phoenix is not. According to the *Phoenix New Times*, downtown Phoenix witnessed a 40% decline in the number of businesses.

Arizona and Phoenix’s civic and business leaders should pursue policies based on the way Phoenix is, not on the way central planners want it to be. These policies should build on our strengths and accept Phoenix’s development as a suburban community.

The Arizona Federation of Taxpayers recommends four policies for a prosperous Arizona:

1. Policy #1: Encourage decentralized economic clusters

Forcing development to one single downtown causes all sorts of problems. From increased office rents to inter-city squabbles over commuter fees, large

downtowns are often more of a hindrance to economic development than a promoter of growth. In addition, by forcing development downtown, they require greater highway spending, not to mention the prolonged commute time that takes away from family time.

A more progressive solution is a series of decentralized office parks and manufacturing facilities. Creating business centers near the Scottsdale Airpark, Arrowhead, Tempe and elsewhere permits workers to live near their place of employment, thereby reducing commute time, requiring less government transportation expenditures and fostering strong community ties.

2. Policy #2: Low Simple Taxes

One of the big advantages for Arizona has been California's high business and personal income taxes. Arizona has reaped huge advantages from businesses and productive workers fleeing California. However, much more needs to be done.

In 2005, the state legislature took a giant step forward by lowering the business property tax, increasing the state's business competitiveness. But the biggest benefit would be to replace Arizona's current income tax structure with either a sales tax or a simple, flat-tax. According to the non-profit Tax Foundation, Arizona ranked 12th in the nation in overall business climate, but lagged behind its neighbors Nevada and Colorado. By lowering the tax rate, Arizona will encourage business expansion and relocation.

The city of Phoenix has the opposite problem. Its combined property tax rate is the highest in Maricopa County. The proposed \$948 million downtown ASU expansion will be paid for by increased property taxes, which will make the city even less attractive when compared to Mesa, Scottsdale and Glendale. The city should focus its spending on the core government duties of public safety, education and transportation, while keeping taxes low.

3. Policy #3: Contain government spending

As the *2005 Index of Economic Freedom* notes, "nations that are democratic and have free market economies, have twice as much income as socialist or government-run economies." There is a direct correlation between government involvement in the economy and prosperity. By adopting an expenditure limitation such as the Taxpayer Bill of Rights, the Arizona government will be able to meet its current obligations, while government spending will be minimized so it does not "crowd-out" private sector investment or force tax increases on working Arizonans.

In addition, the state should adopt a truth in accounting measure that forces government budgeting to conform to the Generally Accepted Accounting Principles (GAAP). Government should set an example and end the budget gimmicks and accounting tricks.

4. Policy #4: Educational Excellence

Public education in Arizona, like the rest of the country, is well funded. Based on 2003 data from the National Education Association and the Arizona Taxpayers Research Association, Arizona had the following rankings among the fifty States: first in per-capita average salary of instructional staff and in the top 25 in total dollars spent on K-12 education.

However, performance has not matched spending. When confronted with this fact, the defenders of government education offer the same old “remedy”: more spending. The latest fad is “all-day kindergarten.” However, data from the National Center for Education Statistics suggests all-day kindergarten has no lasting impact on reading, math, or science. Indeed, U.S. fourth-graders have higher reading, math, and science scores than their European peers who attend government run preschools.

Parents and informed taxpayers have long recognized what many government educators vehemently deny: the key to effective management of our schools is school choice. Studies conducted in Florida and Milwaukee prove that school choice raises public school performance⁶.

Arizona’s current school choice options are some of the best in the nation. Thousands of poor and middle class families have availed themselves of Arizona’s landmark scholarship tax credits and charter schools. Overall, Arizona ranked 17th in the nation for academic achievement on a composite of three different tests, according to a 2000 report from the American Legislative Exchange Council. Arizona needs to continue the school choice movement with corporate tuition tax breaks (which the Governor vetoed) and permitting full school choice for all K-12 students.

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Notes:

1. Jon Talton, “U.S. creative class requires nurturing,” Arizona Republic, May 1, 2005
2. “Bond vote key to ASU campus in downtown,” Arizona Republic, April 24, 2005
3. Robert Robb, “The Sun Devils,” The Wall Street Journal, April 21, 2005
4. U.S. Census Bureau data, compiled by Joel Kotkin, Goldwater Institute
5. Joel Kotkin, “Top 25 Cities for Doing Business in America,” Inc. Magazine, March 2004.
6. Rajashri Chakrabarti, “Impact of Voucher Design on Public School Performance: Evidence from Florida and Milwaukee Voucher Programs,” *Education News*, Summer 2004.